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THESIS

Railroad Consolidation

and the

Transportation Act of 1933

by

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INTRODUCTION

The significance of transportation cannot be overlooked today because of the broad relationship between the transportation industry and the economic life of our present-day society.

The transportation agent--railroad, truck, passenger car, bus, boat, or airplane--seems rather definite to us when we think of it from a mechanical standpoint. We are able to see new streamlined trains, new models in trucks and passenger cars, the latest developments in bus transportation and the new all metal airplane. Our understanding of what transportation does--its significance and justification--is at times very meager and often clouded in a maze of fast movements in history.

The trend of the times for speed and economy in the transportation of people and their goods from place to place is the foundation of American economic life today. This trend has brought a new method of buying and we now have hand-to-mouth buying in our business life today. The vast network of highways and the motor truck have helped the people of this country to adopt such a method of buying and selling. Almost everything which is bought or sold in this country has in its cost an item of transportation charge. This cost item found in every transportation service is of major importance to everyone today.

With the vast web of transportation services available in the United States today it seems to the author that a suitable system of coordination could be worked out in the best interests of the people. One of the most outstanding problems of our present history is to harmonize and coordinate the large number of agencies of transportation. In view of the number of laws passed by Congress during the past forty years and an aroused public opinion it seems that we may look for a national transportation system within the near future. Whether this will come about by Federal control of one national transportation agency or through a unification of our present facilities under some joint management is for the future to unfold.

The reader should not look for a "solution" to our many transportation problems within this thesis. When one speaks of "solutions" he is confronted with the real situations which develop constantly and which may change all the plans that have been worked out for a so-called "solution" at the present time.

Throughout this thesis the author has sought to give a brief history of transportation, comments upon some of the most outstanding laws affecting the transportation field, and to show that the public welfare in times of peace and war demands a proper system of coordinating our transportation agencies into a national transportation system.

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Sydney William Tymeson

Takoma Park
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A
Brief History of
TRANSPORTATION
in the
UNITED STATES

Chapter I

Problems of Early Colonization

The early colonists had many problems to contend with in their conquest of this new country. They were deeply impressed with the immense natural resources and they desired to turn the natural wealth of the land to their advantage. The first economic problems which confronted these hardy folk were those which concerned their use of the resources of the regions in which they settled.

After this the colonists turned their attention to a means of transportation which would enable them to get from place to place. Their growing business required this attention to a better means of commerce. In the early history of our colonies the people relied mainly upon the local streams and the ocean for transportation of people and goods. We notice this when we study the early history of the colonies. The cities and towns were not very far inland and most of them were located on the coast.

The early settlers had difficulty in penetrating into new territory. On their pioneer journeys they made use of small water craft. This means of transportation was slow and risky. This was costly because the streams were shallow and full of debris. Because of these conditions the craft

was often wrecked, resulting in a total loss of the cargo.

As the colonists pushed into the interior they could not be handicapped by a transportation system dependent upon the natural waterways. Agencies for transportation over the land routes were next sought out by the colonists. Horses were imported at an early date. They were of great value to the colonists for purposes of rapid transportation. "Between 1750 and 1790 there were persons in nearly all important communities who made a business of carrying goods by this means. One owner of a pack-horse business in Pennsylvania employed about 200 horses and more than 100 men. Many thousands of persons were employed in this business throughout the country. The cost of transporting goods in this way was prohibitive except for the most valuable or most essential articles. The cost of transportation by pack-horse from Philadelphia to Erie was \$249 per ton." (1)

The trails used by the pack-horses were soon widened and bridges were built over streams. With the building of bridges and roads it was possible to use wagons for transportation of goods and persons and the need for saddle horses rapidly disappeared. The cost of transportation remained high because of the maintenance of the dirt roads.

(1) D. Philip Locklin, Economics of Transportation. p. 31.

The Westward Movement

It seems with every period of our nation's history that the need of improving our means of transportation has been a most pressing problem. We find that this need has been felt the most where our population has gone beyond the original settlements of the early colonists. When the westward movement carried our early settlers far beyond the Appalachian Mountains and away from the seacoast it left them without the easy water transportation which they had enjoyed along the coast. Necessity thus became the mother of invention and we find the development of cities, the concentration of industry, large scale production, foreign trade, the development of modern economic and social life have evolved from a more efficient means of transportation. To the same factor is due the political success of a democratic government in the vast area of our country, for the nation might have disintegrated had it not been closely bound together by economic ties and had not the growing distances been shrunk by a quicker means of communication. "The railroad mesh is the warp on which our economic web is largely fashioned. It has made a continent into a nation. It has saved us from splitting, like Europe, into small, clashing units. It made possible the rise of the West. It is our service of supply. These are not matters of private concern; they have no place

in the excesses of speculation, nor can they be allowed to become springboards of financial ambition." (1)

The development of our country was made possible only by the building of means of transportation better than the old trails or natural waterways that the early colonists used in their trek to the West. Our transportation has advanced by many stages, each of which was an improvement over the preceding one. First came the turnpikes whose greatest development occurred in the period between the years 1790 and 1815. These turnpikes were built by private companies which charged tolls for the use of them. "The first one of importance was the Lancaster-Philadelphia turnpike, some 62 miles long, which was completed in 1794 at a cost of \$465,000. The success of this road led to a craze for turnpike construction. In the next thirty years Pennsylvania chartered 85 companies which built about 2200 miles of road. In New York 135 companies completed some 1500 miles by 1811, and in New England 180 companies had been chartered by 1810. The next step was to build toll bridges, which were financed in the same manner." (2)

Before this movement had gained much headway, the steamboat was invented and introduced on our rivers. This new aid to transportation stimulated the use of our natural waterways. As many began to use this means of

(1) The Railroads--President Franklin D. Roosevelt's Speech at Salt Lake City, Utah. September 17, 1932. p. 14.

(2) Bogart, E. L., Economic History of the American People, p. 324.

transportation it was soon perceived that if these could be joined by canals the country could be united by a network of waterways. The people in the interior wanted to get supplies as cheap as those on the seacoast. Wheat was bought in Europe and sent to our seaboard cities. The people in the West and Middle West knew that they could produce all the wheat the country needed but their handicap was the transportation facilities for sending such wheat to the Atlantic coast. The people in the interior called for a better means of transportation and as a result state after state took up building canals. This period may be said to have continued from 1807 to 1860. It was about this latter date that the waterways began to feel the railroad competition. Railroad building, which had commenced twenty years before, set in on a considerable scale and railroads began to threaten the supremacy of water transportation. By the year 1860 the railroads were well on the way to superseding the water transportation systems of the United States. "It soon became evident that the rail lines provided a better means for diffusing industries and gradually they were substituted for waterways, natural or artificial. The substitution stimulated the trade and commerce of this country and ultimately opened up the domestic and foreign markets for the products of agriculture, mines, and factories. During the last one hundred years rail transportation has contributed more than any other known factor to the commercial development of this country.

"The little railroad under construction in eastern Pennsylvania, the Mohawk & Hudson in New York, and the Baltimore and Ohio in Maryland were the acorns that grew into the three present great trunk line systems, comprising over thirty thousand miles of railroad and representing an investment of more than \$5,500,000,000." (1)

By 1890 the country seemed reasonably well supplied with railroad facilities. This result has been brought about through the desires and studies of the pioneers of transportation who always sought a greater measure of real efficiency and economy in transportation. It is not hard to remember that we started early in the nineteenth century with that little locomotive called the Tom Thumb. The Tom Thumb carried a car of eighteen passengers a distance of thirteen miles in one hour and a quarter. Today we have large trainloads of passengers aboard the new streamlined trains travelling at speeds of more than a hundred miles an hour.

The early part of the twentieth century saw the opening up of the transportation field to the airplane. This new means of transportation was a practical success after the use of airplanes in the World War. Along with this new development came the use of the automobile both for pleasure and business.

(1) Railroad Data, January 4, 1935. p. 1.

20th Century Developments

The use of the automobile brought about improved roads and offered to the people a popular, convenient and widespread system of transportation which has been more revolutionary than the electric railway. It has been more revolutionary because it has brought the outlying districts of our communities into closer touch with the cities and towns. The horse and wagon with the poor roads made transportation of goods and people very expensive. The railroads sought to make transportation more economical both for long and short hauls. With the advent of the railroad, people paid little attention to the roads because the horse and wagon could not compete with the railroad in cheap transportation.

With the invention of the automobile everything seemed to change. People once more looked to the highways. The motor car created a demand for improved roads. With the improved roads the possibilities of this new invention were only restricted by the roads available. It is interesting in this brief discussion of our transportation history to note that, with the new attention being turned toward the auto truck and bus, we are seeing a revival of interest in good roads. This is similar to the interest which attended the introduction of the early turnpikes.

This revival of interest in good roads has had its effect in many ways upon the railroad transportation systems of this country. "Inroads by truck and bus competitors have alarmingly encroached on rail business. If a code for trucks and buses can succeed in regulating operations and rates so that rivalry with the rails shall be made fairer, one of the most bearish factors in the railroad situation will be removed or reduced." (1)

This brings us to a consideration of the transportation systems of the United States as they are related to the subject of consolidation.

(1) Babson's Reports, February 12, 1934. p. 4.

Early History
of
Consolidation

Chapter II

Consolidation from 1850-1914

Some degree of consolidation has always been practiced. This is due to the fact that two or more forms of transport are generally required for the carriage of commodities from one place to another. It is true that this coordination of the past has been for the most part haphazard and irregular. Before the World War the most widespread system of coordination was that which was provided by the railroads of this country. Through their vast system of collection and delivery of services and means of transportation we had a sample of country-wide consolidation. We must keep in mind that before the war the areas which were served were somewhat limited and for the most part horse vehicles were almost invariably employed. In this vast network there was no real control over the whole system as related to our national system of transportation consolidation.

During the years from 1850 to 1914 we have a study of the rapid growth of the railways and during this time they had very little competition with any other means of transportation.

It was late in the nineties when we had a nation-wide trend toward consolidation in the railroad field. Some thought that this was new because it had attracted such wide-spread public notice. The large railroad systems were the result of consolidation of groups of independent railroad companies.

Tracing this trend toward consolidation we find in New England the Boston & Maine controlling the northern section and that in southern New England the New York, New Haven & Hartford had obtained control of the lines in that section. All of these consolidations were going on in the early part of this century. From 1900 to 1902 the control of the eastern territory lines was in the hands of the New York Central and the Pennsylvania railroads. The consolidation in the Southern Territory was brought about by the grouping of the Southern Railway and the Atlantic Coast Line-Louisville & Nashville system. In the West there were many consolidations. The name of E. H. Harriman stands out as one of the leaders in the field of combinations about 1901. Mr. Harriman desired to get the transcontinental lines under his control so as to prevent serious competition. The Northern Securities Company became the medium through which Mr. Harriman obtained control of the Great Northern and the Northern Pacific. Because of Mr. Harriman's large holdings of stock--the Northern Securities Company exchanged its stock for the shares of the Great Northern and the Northern Pacific--in the Northern Pacific stock concern, he became a large stockholder in the Northern Securities Company.

For some years these railroad consolidations went on. The public was not alarmed in the early history of such movements. Toward the close of the nineteenth century we note the public interest in the consolidation movements. The work of Mr. Harriman had aroused the public against public monopolies. The Sherman Anti-Trust Act of 1890 was but a reaction of the people against the combinations in the transportation field.

There has been some question about this being the proper time for such combinations. It might be said that "The problem of coordination was comparatively easy of solution since there was a more or less clear demarcation between the various types of transport in use in the country. This was a relatively static period in transport evolution and so each form of transport fell naturally into its own sphere and a species of unconscious coordination resulted. Perfect equilibrium was not achieved, since there was a certain degree of wasteful competition between rival railway companies and between electric tramways and local railways." (1)

Perhaps we should have pushed our consolidation principles to the utmost and enacted laws for binding our transportation systems of all kinds, into one vast network. This may have been the proper time to think of a few large transportation systems coordinated under one control. It may have been the

(1) K. G. Fenelon, Transport Co-ordination. p. 69.

opportune time to think of a national transportation agency. This may have been easier under the existing conditions during the period of 1850 to 1914. However, since we have left the period of 1914 we have been in a dynamic or transitional period. We have been having uncontrolled competition in the transportation field. This competition was fostered by the Sherman Anti-Trust Act of 1890. In many of the court cases brought during the early part of this century the theme of competition is foremost in the minds of the courts. The Interstate Commerce Commission repeatedly stated that the idea of competition between the railways was an established policy of the country. In the famous Northern Securities case the Court opinions seemed to see the requirements of the Sherman Anti-Trust Act and carried out the provisions of the Act in giving decisions. Nevertheless the Court held that there was a difference of opinion as to whether competition was for the best interests of the country in the transportation field.

We see the results of this free competition in the transportation field today. The truck and bus have competed with the railroads in hauling more and more freight and passengers each year. This loss has been great enough to merit the attention and concern of the railways.

The decline of Less-than-carload lots transportation has been the most noticeable. The loss in L.C.L. transportation has affected the short hauls and we find the trucks taking over more and more of this class of transportation every day.

So we have a period where the competition is keen and the exact place of each form of transportation is changing rapidly from day to day.

Rise of Outside Competition since 1914

The early part of the twentieth century saw many of the railroads wondering if they were to be faced with the loss of their capital. And perhaps unemployment might threaten their workers if the new means of transportation (bus and truck) was to suppress the old system which had held sway since 1860. The movements in the transportation world were so rapid that the leaders in the railroad field hardly realized that the highways were again to become factors in the transportation of goods and people. The bus and truck made rapid headway in the transportation of goods and people over long distances. The short haul traffic monopoly which was held by the railways was quickly broken by the trucks.

This competition has assumed such proportions that the railroad leaders now contend that the government that fixes rates, hours of labor, and wages paid by the railroads should also fix the rates, hours of labor, and wages paid those engaged in bus and truck transportation. They feel that the state and federal governments can control fair competition only by requiring the bus and truck to pay their proportion of the cost of building the highways.

Perhaps in thinking these things they are unduly alarmed

as were the coach proprietors of the second quarter of the 19th century who viewed the coming of the new methods as the "calamity of the railways." It was during the same period that the "canal companies became demoralized by the advent of competition and instead of putting their house in order they were content to suffer an almost complete eclipse after the year 1850." (1)

Thus we have the example of competition of one or more systems of transportation. This brought about a decline in the use of some transportation facilities. The railroads soon found that this competition which they had enjoyed with the canal companies and in which they had won out was soon to bring trouble to the vast network of rail systems. So we find "one method of escape from the evils of competition was that of combination, and this has gone on in the United States since the fifties. The first phase of this to attract public attention was the combination of end-to-end lines. As long as the traffic was local the lines remained short and disconnected; not until after 1850 was a length of five hundred miles attained by any one railroad. During the decade 1850-1860 many consolidations of short lines into connected roads took place, and this process continued during the next decade, notably in the case of the Pennsylvania and of the New York Central and Hudson River railroads. Under the leadership of such able railroad men as Thomas A. Scott and Cornelius Vanderbilt the connecting roads were

(1) K. G. Fenelon, Transport Co-ordination, p. 71.

welded into great trunk lines. The growth of the western grain trade and of other long-distance traffic made through shipments desirable and brought about an era of consolidations." (1)

With the era of consolidations there arrived an increased intensity of competition between the now larger and stronger systems of transportation. This competition became ruinous and the companies turned to other means of cooperation because of the rate wars going on. "In 1868 the rate from New York to Chicago was \$1.88 per hundred pounds on first-class goods and 82 cents per hundred pounds on fourth-class goods; during the rate war of 1876 these fell to 10 and 15 cents, respectively, while passenger fares were cut to \$7.00 and cattle were carried for \$1.00 a carload." (2) This ruinous competition caused the railroads to seek agreements which usually took the form of pools whereby the earnings of the whole traffic were divided among the competitors on some prearranged basis. With this element of pooling there was a certain amount of stability in the relations of the transportation systems. However, in 1887, the Interstate Commerce Act declared illegal all pools of railroads.

The railroads were now left with two alternatives, either to return to unrestricted competition or to consolidate.

(1) E. L. Bogart, *Economic History of the American People*. p. 648

(2) *Ibid.*

The modern motor bus is of such recent origin that statistics are rather meager. Its early history does not date back much beyond 1925 as far as its competition with other means of transportation. The early buses were nothing more than large, crude passenger cars. They were not comfortable, improper heating arrangements were used and they kept schedules that were uneven and hard to follow. They attracted passengers through the cheap rates they offered.

The new, modern motor bus is an active competitor of other means of transportation. It has become an important agency of transportation for this generation. Its comparatively cheap power and ease of operation make it highly desirable. It modernized some of our theories of transportation. It competes successfully with railroad transportation in short hauls of passengers and within the past few years it has branched out so that bus routes cover the entire United States from California to Maine and from Maine to Florida. There is hardly a place that cannot be reached by the use of the bus today. Many large passenger buses now run on regular schedules between important terminals, and fill a need for frequent service in small units.

The future of motor bus competition is perhaps one of the outstanding problems of the railroad industry. During the past few years we have seen federal and state supervision of highways and super-highways. These new super-highways were laid out without much thought as to the railways and the service they offer in the same territories. The whole thought behind the highway construction seems to

have been the thought that our highways were a wholly independent form of transportation. These new highways have opened up an immense field for passenger cars and buses. Their competition is felt everyday by the railroads. "It seems only a few years ago that the suggestion of dangerous competition from motor cars raised a hearty laugh. It doesn't get a hand today. To mention it in some railroad offices is as risky as breaking the news of another rate cut by the Interstate Commerce Commission. To grasp it understandingly one has only to know that in 1911, which is going back far enough, precisely 619,500 passenger automobiles were registered in the United States. At the end of 1929 there were 26,700,000 automotive vehicles registered, and about 24,000,000 of these were passenger-carrying cars--automobiles or buses." (1) It may be interesting at this point to enumerate the passenger traffic of the railroads for all the past sixteen years. In this way we can definitely see the reduction in passenger traffic of the railroads.

1920.....	1,234,862,048
1921.....	1,035,496,329
1922.....	967,409,205
1923.....	986,913,075
1924.....	932,678,462
1925.....	888,267,296
1926.....	862,361,333
1927.....	829,917,845
1928.....	790,327,447
1929.....	780,468,302
1930.....	703,598,121

(1) C. Dillon, Our Changing Transportation. Scientific American. June 1931. p. 376.

1931.....	596,390,924
1932.....	478,800,122
1933.....	432,979,887
1934.....	449,775,279
1935.....	445,872,300" (1)

These huge losses in passenger traffic on the railroad systems are due to a number of things. The depression has no doubt had its effect upon the passenger travel of the railroads. How much the depression has affected railroad travel is hard to determine. It is much easier to notice the figures for motor vehicle registrations. In 1920 we had approximately eight million passenger automobile registrations in the United States. In 1935 the total had risen to almost three times that of 1920, 22,565,347.

The beginning of motor truck competition goes back to the time of the World War. Here was a sudden emergency and it found the railroads unable to carry men and supplies as rapidly as the war demanded. With the rails clogged and the call for speed in transporting men and supplies ringing from all sides we found thousands upon thousands of motor trucks thrown into the breach. As a result this country was able to carry out a huge transportation project on a war-time basis. Motor truck registrations were a fraction over 200,000 in 1916 but by 1935 the registrations of trucks was over 3,655,000. These motor trucks had a marked effect upon

(1) A Yearbook of Railroad Information, 1936 edition, p. 28.

railway freight traffic.

The change to motor trucks as primary units in the local freight business has been tremendous within the last few years. Some have thought this rapid change has been unique in the field of transportation history. The private trucks of the farmers and business men gave it a good impetus in the beginning of motor truck history. The United States is now witnessing a tremendous growth in the motor truck transportation field. These trucks that use our highways day and night have grown from the early half-ton truck to the large trucks of today. The growth in size and numbers of these huge transportation vehicles has brought many problems in highway traffic and construction. They use the 3,000,000 miles of road as their rights-of-way, thus creating traffic hazards of a very serious nature.

The extent of motor truck competition with the railroads is more noticeable in some fields than in others. The shipments of livestock used to make up considerable traffic on the railroads. "The diversion of livestock shipments to trucks is indicated by the increasing percentage of livestock receipts received by truck at the leading markets. These figures show that in 1916 only 1.6 per cent of the receipts at 17 leading markets were shipped by truck; in 1920, 5.2 per cent; in 1925, 8.6 per cent; in 1930, 25.6 per cent; in 1932, 42 per cent; and in 1933, 50 per cent." (1)

(1) D. P. Locklin, Economics of Transportation. p. 740.

There are a large number of big commercial vehicles on the highways but the most numerous type vehicle is the small and medium-size truck. In the early history of the trucking industry the average truck hauls were short. Today there has been a noticeable tendency for these distances to increase. The use of trucks has opened up a small-scale industry in the field of transportation. This industry has not been monopolized by a few large common carriers but is made up of a large number of operators with a few trucks. This large number of small operators has been influenced by the truck manufacturing companies who sell trucks on easy terms to persons who are not familiar with the costs of the trucking industry.

There are several reasons for the motor truck competing with the railroads. The most important of these may be classified as follows:

- 1--Completed service
- 2--Speedier service
- 3--Less stringent packing requirements
- 4--Easier rate classification
- 5--Convenient, flexible service

Realizing that the motor truck is here to stay the railroads have started to reverse their former attitude of hostility toward motor-vehicle transportation. This reversal in attitude on the part of the railroads has led them to research work in the study of rates, services, and their operating methods. The railroads are the most important carriers of freight in spite of the large increases in truck

traffic. The railroad still stands supreme in the movement of large shipments of freight for long distances. The railroad men realize that all their attempts to regain the lost traffic cannot destroy the transportation of freight by motor-truck transportation. One of the problems of the present and the near future is the coordination of the agencies in the transportation field. Many think this will mean that the various transportation agencies will be confined to the fields in which they are more efficient than in competing with all the agencies of transportation. There are many obstacles and these are largely matters of regulation and control.

Some Obstacles
to the
Coordination Principle

Chapter III

Early attempts at Consolidation

The net result of our haphazard transportation development has been a large surplus of transportation agencies. It does not appear that there will ever be a real coordination of our transportation agencies so long as they are allowed to be separately organized and competing with one another. The lack of research has been a drawback. We need a thorough study of the field of transportation so that we can devise ways of moving goods from their point of origin to the point of final destination with the least cost to the shipper and consumer. This study will enable us to know whether shipments should be made entirely by one means of transportation or whether we should utilize several types of transportation agencies. Many are afraid that the establishment of consolidated transportation companies would mean the abandonment of competition and that this would affect rates.

The history of attempts at railroad coordination has amply testified to the many attempts, some good and some unjustified, of well-meaning advocates of coordination to consolidate our transportation problems under what may be called "one roof". These attempts have never received the

consideration due them because of several reasons:

(1) the inadequacy of the research into the country-wide problems of coordination (2) the failure to take into account the inter-locking directorates and holdings of railroad stocks (3) the idea that the government can quickly assume control over all railroads and then with strong-arm methods weed out those roads which are not producers or to the benefit of the public.

Early Legislation

Prior to 1920 many agencies of government were set up to regulate transportation. Many of these have been held unconstitutional by federal courts under the fourteenth and fifth amendements to the Constitution of the United States. These amendements declare that no person shall be deprived of property without due process of law. From 1830, when there were but 23 miles of railroad line in this country, until 1860 the railroads were almost entirely free from legislative interference. In its early history, the railroad was given every encouragement by a public that showed marked eagerness to secure railroad transportation. This eagerness on the part of the public showed itself by the generous aid given it rather than the enactment of restrictive legislation.

"The impulse toward railroad control came from the middle west. The railway abuses of the late sixties and the early seventies were felt most keenly in that section of the country. The agitation for public regulation and control was supported by concerted efforts in the states of Illinois, Wisconsin,

Minnesota, Iowa and Missouri. The farmers in these states regarded the prevailing high tariffs at non-competitive points as unduly oppressive, the burden being the heavier because of the decline in prices of agricultural commodities; and they demanded the establishment of lower rates for the transportation of their products to the seaboard. The agitation for relief was espoused by the farmers' granges of these midwestern states, as a result of which the demand for railroad regulation came to be known as the Granger Movement, and the statutory enactments to which it gave rise, between 1871 and 1875, as the Granger Legislation." (1)

These early beginnings in railroad control formed the foundation of the vast system of public control which had the authority of the Federal Government as well as the majority of the states. The period from 1873 to 1878 saw a lessening of regulation because of the period of depression. The regulation exercised by the Interstate Commerce Commission originated with the law passed in 1887. This Act gave the Commission power to establish reasonable rates and to prevent discriminatory practices.

The years between 1887 and 1906 showed the first steps of the Federal Government in seeing that the regulation adopted was in the public interest. The early trials of the Commission were numerous and because of judicial interpretation

(1) H. Taylor, Contemporary Economic Problems, p. 319.

the Commission lost many of its essential powers. These were restored later. The Hepburn amendment of 1906 and the Mann-Elkins Act of 1910 restored and enlarged the authority of the Interstate Commerce Commission. The Hepburn Act restored the rate-making powers formerly given to the Commission. The Mann-Elkins Act gave the Commission power to suspend rate advances until a most thorough investigation had been made into their reasonableness. The 1906 legislation gave the Commission power to investigate and supervise the accounting procedure of the transportation agencies.

Since the passage of the Mann-Elkins Act there has been a noticeable tendency on the part of the courts to make their own interpretations of the Act. These interpretations have leaned more and more toward the Interstate Commerce Commission as the dominant governmental agency in the field of railroad regulation.

Many conditions arose which were detrimental to the best public interest. Because of competition and its encouragement the companies that shipped goods were given very liberal rates and a most wasteful system took root. The Commission did not have the authority to make the various railroads consolidate their lines for the best public interest. The World War found this country with a large number of transportation agencies unable to provide adequate

service.

A few years after the World War the country was confronted with the problem of returning the railroads to their owners. During the war the roads had been operated by the federal government and in 1920 the question confronting the government was how best to guarantee protection to the roads and to all those interested in their administration.

The paramount issue was the fixing of rates to make sure the railroads could have enough income to meet their costs of operation. This problem the Interstate Commerce Commission faced could only be properly settled by some legislative action. In harmony with the wishes of the Interstate Commerce the Esch-Cummins Act was passed in 1920. This Act has been referred to more commonly as the Transportation Act of 1920.

Because of its wide scope in defining the conditions of federal control of railroads and because it was such an outstanding step in this field of legislation it merits more than brief mention.

The first feature of the Act was to define the terms by which the railroads were to be turned over to their owners. The settlement of all claims resulting from federal operation was to come out of a fund of \$200,000,000 under the supervision of the President. The Act stipulated that federal operation of the roads was to cease March 1, 1920. Because many of the roads would be in a poor financial condition the Act authorized the Interstate Commerce Commission

to make loans to these carriers.

The next important feature of the Act was to grant to the Interstate Commerce Commission authority to consolidate or coordinate the railroad systems.

Another section of this most important legislation was that dealing with the rate-making. This important part of the Act extended the Commission's control over the railroads. It gave the Commission a wider scope of authority. Much history has been written about Section 15a. This section gave the Commission the right to determine a fair rate of return to the railroads. "Congress prescribed $5\frac{1}{2}$ per cent, however, as the fair rate of return for the first two years that the section was in force, but it authorized the Commission to add an amount not exceeding one-half of one per cent to make provision for improvements and betterments. The Commission was also to determine the aggregate value of the railroad properties for the purpose of administering the section, but the values found under the Valuation Act of 1913 were to be used when available." (1) This section of the Act aroused so much interest that it has lost its number as 15a and is now known as the Recapture Clause. The Recapture Clause provided "that if any carrier 'receives for any year a net railway operating income in excess of 6 per centum of the value of the railway property held for and used by it in the service of transportation, one-half of such excess shall be placed in a reserve fund established and maintained by such carrier,

(1) D. P. Locklin. Economics of Transportation. pp. 236-237.

and the remaining one-half thereof shall ... be recoverable by and paid to the Commission for the purpose of establishing and maintaining a general railroad contingent fund....' The funds thus 'recaptured' by the I.C.C. were to be used 'in furtherance of the public interest in railway transportation, either by making loans to carriers to meet expenditures for capital account or to refund maturing securities originally issued for capital account, or by purchasing transportation equipment and facilities and leasing the same to the carriers.' " (1)

The working out of the Recapture Clause was far from satisfactory. The fact that it brought relief to weak railroads caused many investors in the strong railroads to ask that the section be nullified on the ground that it violated the private property rights of the investors in the strong roads. These investors claimed they took risks in investing their means in the railroads and that they should not be limited in the amount of dividends that their stock would earn. A storm of protest arose over this section and the "recapture" section of the Transportation Act of 1920 was repealed in the Act of 1933. The Act of 1933 will be discussed later.

Since the passage of the Transportation Act of 1920 with its new conception of regulation "there has been an increasing tendency to search for some compromise whereby the various methods might be coordinated to their mutual advantage and benefit of the public. Such coordination

(1) H. Taylor. Contemporary Economic Problems. p. 331

implies that each form of transport would be used in the economic conjuncture best suited to its characteristics." (1)

Perhaps one of the most serious obstacles to a real workable coordination of our transportation system has been "up to the time of the passage of the Transportation Act of 1920, at least since 1890, the conception underlying our legislation, that any form of railroad combination which might have a tendency to interfere with a substantial competition was contrary to the public interest and was prohibited.

The whole theory in all legislation (including anti-trust legislation) as applied to railroads seems to have been that the railroads would always be able to take care of themselves and that the only thing the government needed to concern itself about was to prohibit the railroads from doing anything which by any conceivable theory might be regarded as injuring the public interest. Consequently the legislation was purely restrictive, purely repressive." (2)

This legislation which has been classed as restrictive and purely repressive was brought about by the attitude of the public during the early years of the twentieth century. The abhorrence for the monopoly has long been manifest in the public mind. As a matter of fact the feeling was pronounced that competition and monopoly were members of the same family and thus condemned. Both relied

(1) K. G. Fenelon, Transport Coordination, p. 67.

(2) P. T. Moon, Railroad Consolidation. Proceedings of the Academy of Political Science, June 1929, Vol. 13 #3, p. 10.

on strangulation and oppression for sustenance and to the average man in the street they were the twin offspring of selfishness and greed. The public interest was not being protected in this unrestrained competition which ultimately led to monopoly through the crushing of all competitors. With such disregard for the public interest, the practice of crushing competitors brought quickly to the public mind the need for laws which would protect the interests of all. "What was needed was competition that was beneficial--not competition that was harmful and destroyed the power to compete." (1)

The Transportation Act of 1920 aimed at overcoming this obstacle of a monopoly that would have a strangle hold on the entire railroad structure. The framers of the Act thought that it would solve the problem of the railroads by protecting the competition where it was to be beneficial. In this protection it was not to have the protection that would give it the power to destroy. "The attempt to control railroad rates by means of competition has, in my judgment, never been a sound method of regulation. It has led to extensive duplication of transportation. It has imposed enormous burdens alike upon the taxpayers and the shipping public. Consider, for example, the expenditures now being made on the upper Mississippi River. The shippers in the upper Mississippi territory do not expect to ship any great amount of goods over the improved

(1) M. W. Potter, The Outlook for the Railways, p. 53.

Mississippi; but once they get potential water competition they will be in a position to demand a reduction of railroad rates. Thus we expend hundreds of millions of dollars, not because additional transportation facilities are needed or because the costs of transportation would thereby be reduced but merely as an indirect means of forcing a reduction of railway freight rates, which the Interstate Commerce Commission already has power to reduce if considerations of public policy demand it." (1)

"It is clear that competition has not furnished a solution to the transportation problem and it is evident that the best use is not being made of the available facilities." (2)

The best way to use the available facilities has provoked many students of our transportation problems to see the "practical difficulties" which stand in the way of a proper solution of our complex transport problem. "Everyone would agree that overlapping and wasteful competition is undesirable and costly. The difficulty is to find a scheme of coordination which would secure all the advantages of co-operation--but which would neither check the legitimate developments of new forms of transportation or injure the interests of the public." (3) We must ever keep in mind that since the later years of the nineteenth century

(1) H. G. Moulton, Fundamentals of a National Transportation Policy. American Economic Review Supplement, March 1934, p. 43.

(2) K. G. Fenelon, Transport Coordination, p. 67.

(3) Ibid, p. 69.

we have had numerous transport developments. These improvements from year to year have affected in every form both new and old means of transportation and the relations of connecting systems of transportation. "The multiplicity of road transport and the ease with which new enterprises can be started considerably increases the difficulties of inaugurating a system of coordination." (1) This brings us face to face with the numerous small systems which make up our large system of transportation. If we had to deal only with the large companies perhaps our problem of coordination would be solved easily but when we have numerous transport facilities in the hands of many small owners a system of coordination is much more difficult to achieve.

Since the World War when the government took over the railroads for war purposes we have seen many of the small transportation systems brought under control of several large companies. "Consolidation is the tendency of the times in most lines of business. During recent years public sentiment has changed from opposition to approval of large organizations, it having been demonstrated that such organizations are in most instances more economical and effective. Change of public sentiment toward railway consolidation came earlier than the approval of consolidation in finance and production. As far as public opinion

(1) K. G. Fenelon, Transport Coordination, p. 71.

is concerned there is no longer any general or theoretical opposition to reducing the number of railroad systems. The men who own and manage railroads have for the most part always been in favor of consolidation, and in spite of legal restraint and adverse public sentiment it has been a continuous evolution of railroad integration." (1)

The tendency toward consolidations probably originates with the desire for stability. When the Transportation Act was passed in 1920 the tendency toward consolidation in a number of fields of industry was very much in evidence. These consolidations were brought about by the desire to limit the uncertainties of uncontrolled competition. It will pave the way for a more dominant role in affecting the regulation of competition.

These internal economic activities brought about for the protection of competition started when this country was looking for stability in industry and employment. The Transportation Act of 1920 aimed at consolidation but the Interstate Commerce Commission had to keep before it the fact that competition should be preserved as fully as possible. The framers of the Act knew that there would be some elimination of competition through consolidation but the final result of competition would be achieved by the consolidated systems competing with one another.

(1) E. R. Johnson, Obstacles to Railroad Consolidation in Eastern Territory, p. 33.

Financial Obstacles

It is not the subject of this thesis to go into the various means which have been used to gain control of smaller lines by larger transportation lines. It may add interest at this point to show how control has been achieved by financial manipulation. In this field the holding company has arisen as an instrument for the concentration of control. It deserves special mention because of the peculiar problems its development has created. The holding company is one of many forms of consolidation in the business world which some think a new development but which in reality dates back in American history. The unusually rapid development of the holding company came after the World War and was centered in the public utility industry. It was also used in the banking and transportation field as well.

The holding company brought in many problems which were difficult to control because it was exempt from restrictions to which other business corporations have been subject. It extended its influence beyond state lines and this fact coupled with its newness made it difficult of regulation.

The decision of 1904 known as the Northern Securities decision really checked the holding company in its original form. Since the passage of the Transportation Act of 1920 the security issues of the railroad operating companies have had some measure of control through the Interstate Commerce Commission. Where the holding company gained a dominant hold

as a financial device for control in the railroad industry was in the organization of the Pennroad Corporation and the Van Sweringen holding companies. "By 1930, 20 per cent of the entire railway mileage was under the ultimate control of holding companies. With the railroads, as in the case of the power industry, certainly a major purpose of the holding company has been the avoidance or mitigation of public control. 'In the field of the railways ... it is doubtful whether any one of the great holding companies and investment companies which have recently been created by several of the rival systems would have been thought of aside from their usefulness as a means of escaping the guiding hand of the Interstate Commerce Commission.' "(1)

The Interstate Commerce Commission in seeking control over the security issues recognized that stock-watering and over-capitalization often resulted from consolidations and acquisitions of control through stock-ownership.

The holding company is a new device in the financial field and if properly regulated and controlled it may be of value to the country. Joseph B. Eastman in a speech before the American Bar Association convention stated in part as follows:

"Under certain conditions, and properly limited and safeguarded, there may be a legitimate place for such corporations.

(1) Recent Social Trends in the United States. Report of the President's Research Committee on Social Trends. p. 248.

But when instead of a reasonably simple corporate structure one finds a tangled maze of pyramided and interlacing companies, many of them strictly of the holding type or dummy type, it requires no great amount of intelligence to know that some process of evasion or concealment of perversion is under way. Furthermore, the creator or architect of every such corporate labyrinth is bound to be some clever legal shark ... I suggest that disease is attacking the business, banking, and financial practices of this country, and is an important factor in our present troubles....." (1)

The holding companies have played a large part in the financing of our transportation systems. Many of these companies have not looked entirely to the public interest in their dealings. These holding companies have been carrying on a method of consolidation which is entirely outside of the interest of the public. In the second paragraph of the Senate Joint Resolution we find the following: "Whereas the Interstate Commerce Commission stated in its annual report for the year 1929 that public regulatory policies would be defeated unless means were found to control holding-company operations whereby railroad companies are now being consolidated, in effect, without any exercise of that public control which is necessary to conserve the public interest; and" (2)

(1) The Nation. October 26, 1932. p. 393.

(2) S. J. Res. 161 "To Suspend Railroad Consolidation"--
Hearings before the Committee on Interstate Commerce
U. S. Senate Tuesday, April 15, 1930. p. 1.

When the Committee on Interstate Commerce met in April 1930, the members called before them Mr. Wilbur La Roe, Jr., Attorney at Law, Washington, D. C. Mr. La Roe was chief examiner with the Interstate Commerce Commission before taking up private practice and in his statement before the Committee he said the following: "Public regulation would be defeated unless the holding--company operations are curtailed or prohibited." (1) When Congress first instituted investigations and hearings on the transportation problems, as referred to consolidation, there was not a great stir about the holding companies. They had hardly come into existence as a means of consolidation. They were not looked upon with any great fear as to the results they were liable to achieve.

Senator Dill in his testimony before the Committee on Interstate Commerce which was considering the Joint Resolution to Suspend Railroad consolidation mentioned the following in his remarks: "But we must realize that conditions have so changed through the method of employing holding companies to effect mergers that it is incumbent upon Congress to make some new regulation. We no longer have the consolidations that Congress had in mind when the bill was passed, (The Railroad Transportation Act of 1920) for now, by means of holding companies, merger through stock control, consolidation is going on, and there is no

(1) S. J. Res. 161 "To Suspend Railroad Consolidation"--Hearings before the Committee on Interstate Commerce U. S. Senate, Tuesday, April 15, 1930, p.11.

law nor power even in the Interstate Commerce Commission to stop it." (1) These consolidations are going on in such a way that they are distinctly outside the role of being of benefit to the public. The holding companies take over control of transportation systems by control of a certain number of shares or ownership in the company. These companies may buy the controlling interest in the capital stock but they do not assume the entire indebtedness of the system taken over. This leaves a very weak financial background to work upon in case there is a breakdown in the financial organization in the future operation of the new system.

The President recognized these facts when he made his speech on "The Railroads" at Salt Lake City, Utah. He said, "Proposed consolidations of railroads, which are lawful and in the public interest, should be pressed to a conclusion. At the same time the provisions of the law should be revised in line with the policies here proposed and with repeated suggestions of the Interstate Commerce Commission and of representatives of shippers, carriers and their employees, to insure further protection of public and private interests involved. There should be clearer definitions of the objects, powers and duties of the commission in promoting and safe-guarding all the inter-related particular interests comprehended within the public interest. Those who have invested their money or their lives in the service of railroads; those who are

(1) S. J. Res. 161 "To Suspend Railroad Consolidation"--
Hearings before the Committee on Interstate Commerce
U. S. Senate, Tuesday, April 15, 1930, p. 11.

dependent on the service to buy or to sell goods; those who rely upon it for the preservation of communities into which they have built their lives--all have vital interests which must be further safeguarded. So--called 'railroad holding companies' should be definitely put under the regulation and control of the Interstate Commerce Commission in like manner as railroads themselves. We cannot let our fundamental policies be blocked by screens of corporate complexities." (1)

Congress took up these details mentioned by the President in his 1932 speech at Salt Lake City, Utah. As a result the acquisition of control of two or more railway companies by any person or a holding company can be accomplished lawfully only with the approval of the Interstate Commerce Commission. This is found in Section 5 of the Interstate Commerce Act, as amended in 1933. If the Commission grants such approval to a holding company, it thereupon becomes subject to regulation by the Commission under certain provisions of the Interstate Commerce Act.

The only case which has received the approval of the Commission, since the amendment of 1933, is that of the Blissfield Railroad Company. In this action the Joseph Schonthal Company received the approval of the Commission to control the Blissfield Railroad Company through stock ownership. The Commission said this acquisition was "for a lawful object within its corporate purposes, and compatible with the public interest." (2)

(1) The Railroads, President Franklin D. Roosevelt's Speech delivered at Salt Lake City, Utah. pp. 11,12.

(2) Blissfield R. R. Co. Acquisition, 212 I.C.C. 32. p. 34.

Future of Consolidation

Chapter IV

Public interest aroused

The transition from war-time operation of our railroads by the United States government back to private operation aroused considerable public interest. Our law-makers realized that the transition would have to be rather rapid and that a number of laws would be necessary to make the transition as successful as possible. Because of the public interest in the return of the railroads to their former owners many of the members of Congress advocated a general overhauling of the old methods of railroad regulation. The Transportation Act of 1920 was largely an outgrowth of the hearings before Congress in 1919 and 1920 when many organizations and a few individuals presented new plans for railroad regulation and consolidation.

All who presented plans recognized that the regulation before the World War was entirely inadequate to meet the conditions of the industry and the best interests of the public. The pre-war period saw no regulation or control over the railroad capitalization structure although previous to 1910 the Interstate Commerce Commission had urged some measure of control as necessary. The shortcomings in the field of service were more pronounced and many of the new proposals for a more adequate service submitted plans for more control over the

types of railroad service.

The Interstate Commerce Commission was authorized under the provisions of the Transportation Act of 1920 to draw up a plan for the consolidation of the railroads in the United States. This plan was to divide the areas into a limited number of systems through consolidation of the large number of railroad systems then in operation. On May 11, 1920 the Commission started its work of investigation.

The Interstate Commerce Commission engaged Professor W. Z. Ripley, of Harvard University, to make a study of the present systems and submit a plan of railroad consolidation. Professor Ripley made an extended study and submitted a report to the Commission. This report set up three regional groups which were made up of 19 major systems. Professor Ripley's plan received many modifications due to objections being entered by the carriers. Because the Prince plan, which was presented in 1933, will be discussed later it will be of interest to list the systems of the Ripley plan at this point. "The consolidation plan as it stands at the time of writing is shown below. The systems are grouped for convenience according to the territory they serve. Only the major companies in each system are mentioned.

1. Eastern Territory

- A. New England

1. Boston & Maine (System No. 1)

- Boston & Maine

- Bangor & Aroostock

- Maine Central

- Rutland (Ogdensburg to Rouses Point)

2. New Haven (System No. 2)
 - New York, New Haven & Hartford
 - New York, Ontario & Western
- B. Trunk-Line Territory
 1. New York Central (System No. 3)
 - New York Central
 - Cleveland, Cincinnati, Chicago & St. Louis
 - Michigan Central
 - West Shore
 - Boston & Albany
 - Delaware, Lackawanna & Western
 - Pittsburgh & Lake Erie
 - Virginia
 - Rutland (except Ogdensburg to Rouses Point)
 2. Pennsylvania (System No. 4)
 - Pennsylvania
 - Detroit, Toledo & Ironton
 - Norfolk & Western
 - Wabash
 3. Baltimore & Ohio (System No. 5)
 - Baltimore & Ohio
 - Ann Arbor
 - Buffalo, Rochester & Pittsburgh
 - Central of New Jersey
 - Chicago & Alton
 - Western Maryland
 4. Chesapeake & Ohio--Nickel Plate (System No. 6)
 - Chesapeake & Ohio
 - Bessemer & Lake Erie
 - Chicago & Eastern Illinois
 - Erie
 - Hocking Valley
 - Lehigh Valley
 - New York, Chicago & St. Louis
 - Pere Marquette
 - Wheeling & Lake Erie

II. Southern Territory

1. Atlantic Coast Line (System No. 8)
 - Atlantic Coast Line
 - Louisville & Nashville
 - Nashville, Chattanooga & St. Louis
 - Gulf, Mobile & Northern
 - Chicago, Indianapolis & Louisville
 - (one-half interest)
2. Southern (System No. 9)
 - Southern
 - Florida East Coast
 - Chicago, Indianapolis & Louisville
 - (one-half interest)
3. Illinois Central (System No. 10)
 - Illinois Central
 - Yazoo & Mississippi Valley
 - Central of Georgia
 - Minneapolis & St. Louis

III. Western Territory

A. Western Territory Proper

1. Chicago & North Western (System No. 11)
Chicago & North Western
Chicago & Eastern Illinois
Mobile & Ohio
2. Burlington (System No. 14)
Chicago, Burlington & Quincy
Colorado & Southern
Missouri-Kansas-Texas

B. Transcontinental Territory

1. Great Northern--Northern Pacific
(System No. 12)
Great Northern
Northern Pacific
2. Milwaukee (System No. 13)
Chicago, Milwaukee, St. Paul & Pacific
3. Union Pacific (System No. 15)
Union Pacific
Los Angeles & Salt Lake
Oregon Short Line
Oregon-Washington Railroad & Navigation Co.
Kansas City Southern
4. Missouri Pacific (System No. 18)
Missouri Pacific
New Orleans Texas & Mexico
Texas & Pacific
Western Pacific
Denver & Rio Grande Western
5. Santa Fe (System No. 17)
Atchison, Topeka & Santa Fe
Kansas City, Mexico & Orient
Chicago Great Western
6. Southern Pacific (System No. 16)
Southern Pacific
St. Louis Southwestern. (1)

Professor Ripley's plan is an endeavor to group together the above railroad systems so that there will be an average amount of competition between the various lines so consolidated. This would be in harmony with the Transportation Act of 1920 which aimed at consolidation without eliminating competition between the various railroad companies in the plan.

(1) D. P. Locklin, Economics of Transportation, pp. 84-86.

Although there were many plans submitted before and after the passage of the Transportation Act of 1920 not one seemed to be adequate in its solution of the transportation problem at the time. The legislative viewpoint seems to be summed up by Senator Dill in a Joint Resolution, number 146, published in the Congressional Record, February 27, 1930, in which he gives a series of seven points which should be considered in our study of the possible future of the consolidation of our transportation systems in this country:

"1--Consolidation of the railroads is predicated upon government ownership.

2--Federal control is repugnant to the people.

3--Owing to the individual initiative of the American citizen in business, the period of Federal control was followed by the reconstruction period, and today the carriers of the United States are performing in a manner satisfactory to the public.

4--But the public has been required to accept, since 1920, railroad consolidation that embraces approximately 21% of the total railroad mileage.

5--Legislation even now before Congress would permit a licensed monopolistic system of transportation.

6--The governmental agency in the form of the Interstate Commerce Commission has on numerous occasions asked to be relieved of the responsibility of drawing up a consolidation plan.

7--Consolidation of the railroads is not a remedy for weak lines." (1)

The seven points brought out by Senator Dill are for general consideration and throw light upon some of the large number of attempts which have been made in theory and practice to find the solution to the problem of consolidation. If consolidation of our transportation systems is predicated upon government ownership and that government ownership is repugnant to the people we are confronted with the problem of bringing to the average man the value of consolidation. This policy may be discovered in the work of the present coordinator. The day when recommendations for the various ills of the railroad systems were sought only in terms of bond issues, changing of freight and passenger rates, mergers and consolidations with no thought of the public interest, is apparently a thing of the past. The railroads have taken a new attitude, a constructive viewpoint--that of asking the travelling public what it would like to see changed in the railroads to make them fit into the present transportation industry for the benefit of all.

Work of the Coordinator of Transportation

The Emergency railroad Transportation Act of 1933, which will be taken up in detail later, directs the Federal coordinator of transportation to provide for an immediate study of all means of improving conditions surrounding the field of

(1) Joint Resolution No. 146, Congressional Record, February 27, 1930.

transportation. In order to give force to the plans of the coordinator the Act prescribes a fine for failure or refusal to comply with the orders of the coordinator. While it does not seem likely that the coordinator will attempt to be arbitrary in this matter, it is certain that any practical suggestions made in response to his inquiry by a large number of the traveling public will have their effect on the management of the railroads.

The coordinator, Joseph B. Eastman, sent out a series of questionnaires to learn just what those who use the railroads would like to see done to make them better, more comfortable and more desirable. The transportation systems themselves have endeavored to pioneer in trying to find out what will bring back traffic to the railroads. There is no doubt in my mind but that this research will pave the way for a bright future in the history of our railroads. Where many have said the railroads were "on the way out" the research of the railroads will undoubtedly show that they are on the threshold of a new era in transportation history.

The history and research of the past have shown that the railroads have been developed into the most adequate, dependable, economical, and safe means of transportation for the mass movement of supplies and people so far discovered in this country. The Equipment Research Division of the Association of American Railroads has had a group of research engineers doing intensive study in leading American universities

on raising the efficiency of the railroads. They are seeking ways to improve performance and standardization of equipment and maintenance. As a result of this new trend of thought in the industry itself we find railroad executives and employees showing an eagerness and alertness this is interesting. They are anxious to apply themselves in any endeavor that will enable the railroads to make available more economical, efficient, and safe transportation. During the depression period the railroads spent millions of dollars in modernizing their equipment with air-conditioning units so as to attract more traffic.

During the summer of 1936 a questionnaire was prepared by the research engineers of the Equipment Research Division of the Association of American Railroads and distributed to passengers on the railroads. The goal these engineers have in mind is that the passenger must be pleased. If recent changes are satisfactory, they know the passenger will express himself on the subject.

These questionnaires sent to the general public are the first efforts to learn what individuals at large think of the various phases of the transportation service problem, with particular reference to the railroads.

This study of the rail transportation situation is one phase of the general policy to put the railroad lines into a sort of laboratory to find out just what is wrong with them

and what can be done about the difficulties and problems.

These questionnaires are now being compiled by the newspaper and magazine editors. When the general public has a chance to appraise their value we may see a revival of interest in the consolidation of our transportation systems. With this knowledge of what is needed from the travelling public there should also come a similar acknowledgement of the financial structure under a system of consolidation. We may then be able to apply the benefits of modern science and engineering to the transportation problem. A start has been made in the types of trains. One of the most interesting developments in the field of modern passenger service has been the streamlined train. The most outstanding changes in motive power, light weight, streamlining are found in the Zephyrs, the City of Portland, the Rebel, the Flying Yankee, the Green Diamond, etc.

These changes have all taken the popular fancy and with them has come into the public mind the services the railroads can give to the people. Speed is a subject of never failing public interest. There seemingly is a public mania for speed, more miles per hour. The railroads are giving to the public, in the modern trains, the satisfaction of real speed with a maximum of safety.

We need but turn the pages of history to find the importance attached to our transportation problems. From the

beginning of our history we have had transportation problems of one kind or another. The "westward movement" in the history of our country was but one of the waymarks which showed the many difficulties the pioneers had to surmount. This march toward the west was fraught with many difficulties but "with the exception of the Indians, who often obstructed or diverted but never permanently hindered the westward expansion, the only serious obstacles at this time in the way of the Americans were the natural barriers and the inadequacy of the existing means of transportation." (1) With the rapid development of our country and the partial solution of some of our more pressing transportation problems we have forgotten the large investments which the people hold in the transportation system of our country. Perhaps we have treated our transportation problems as lightly as possible thinking the systems were controlled by wealthy groups and "As Commissioner Eastman remarks, the public is at present only interested in keeping the wolf from coming through the door." (2)

Mr. Eastman's remarks were made in August, 1932. As a member of the Interstate Commerce Commission he was interested in having our transportation systems get together and mutually consider consolidation in the light of the best public interest. The unification of the activities of the various operators of the railways would work out for the best interest of the public.

(1) E. L. Bogart. Economic History of the American People. p. 267.
 (2) The Nation--Wednesday, August 3, 1932. p. 94.

Financial Structure of Present Systems

The fact that we have been in a serious financial depression and only now feel that we are again on the road toward the natural resumption of business tends to bring to the front our financial structure which supports the transportation systems in the United States. "The following statistics showing railway net capitalization cover all roads with the exception of switching and terminal companies. By net capitalization is meant the total amount of railway securities, stock and unmatured funded debt, outstanding in the hands of the public. Railway securities held by railways are not included. The following figures show the net capitalization of the American steam railways.

<u>Year</u>	<u>Capital stock</u>	<u>Funded debt</u>	<u>Total capital</u>
1916	\$6,415,963,044	\$ 9,916,615,284	\$16,332,578,328
1920	6,706,530,562	10,287,399,701	16,993,930,263
1921	6,673,423,777	10,409,452,216	17,082,875,993
1922	6,751,349,854	10,528,376,315	17,279,726,169
1923	6,847,048,512	10,963,213,750	17,810,262,262
1924	6,805,830,355	11,396,087,357	18,201,897,712
1925	6,885,437,186	11,305,076,143	18,190,513,329
1926	6,830,464,432	11,403,847,205	18,234,311,637
1927	6,756,046,601	11,380,644,844	18,136,691,445
1928	7,084,045,045	11,426,537,564	18,510,582,609
1929	7,212,586,295	11,467,120,633	18,679,706,928
1930	7,185,499,007	11,880,127,078	19,065,626,085
1931	7,111,028,874	11,830,431,260	18,941,460,134
1932	7,057,936,301	11,835,523,146	18,893,459,447
1933	7,174,773,595	11,656,138,729	18,830,912,324
1934	7,038,963,269	11,613,527,983	18,652,491,252

The investment in road and equipment, on December 31, 1934, of the roads covered by the foregoing table, amounted to \$25,681,608,000, a total more than seven billion dollars greater than their net capitalization." (1)

(1) A Yearbook of Railroad Information, p. 18.

These large holdings, mentioned in the preceeding paragraph, have been made possible through the faith of the average man in the transportation systems. The early history of our people demonstrates the great and sincere faith they had in transportation as a means of meeting the needs of a continued prosperity in the United States. When they saw the early railroads stretching out into the valleys and over the mountains it is no wonder they looked upon such systems as a miracle. They believed it would change the economic conditions sufficiently to bring the producer and the consumer more closely together.

With the life blood of the pioneer running through most of the citizens of our country it is no wonder we feel intensely interested in our transportation systems. It was the early history of transportation that brought about the development of commerce for our forefathers. It was during their lifetime and ours that things that were local came to be national, and things that were national came to be international. It is little wonder then that there is an immense amount of capital tied up in our transportation systems.

"There are more than \$11,000,000,000 of railroad bonds outstanding--about half as many, in fact, as there are United States Government obligations. \$5,000,000,000 are owned by savings banks and insurance companies--which means that they are owned by the millions of policy holders and savings bank depositors.

When you put money in the bank or pay that insurance premium, you are buying an interest in the railroads. Some \$2,000,000,000 more are held by churches, hospitals, charitable organizations, colleges and similar institutions as endowments. The remaining bonds are scattered far and wide among a host of people whose life savings have been invested in this standard American industry. Even railroad stocks are held in small units of a few shares here and there by school teachers, doctors, salesmen, thrifty workmen. Experts in railroad finance know that perhaps 30,000,000 people have a stake in these great American enterprises." (1)

Mark W. Potter places a much higher total of people who are directly interested in the future of our transportation problem. He makes the statement that "there were upwards of 800,000 people who owned stocks of American railways, and upwards of one million who owned railway bonds directly. There were holders of upwards of 75 million insurance policies and 25 million depositors in banks who, through their institutions, were owners of rail securities." (2) Obviously, this large group of investors are interested in their investments. One must agree that the roads are owned by millions of stockholders scattered from one end of the country to the other, and by insurance and other investment companies. With such a large group of investors anxious to have their investment pay dividends, it may not be difficult to bring the savings and opportunities of consolidation

(1) The Railroads--President Franklin D. Roosevelt's Speech delivered at Salt Lake City, Utah. Sept. 17, 1932. p. 5.
 (2) M. W. Potter. The Outlook for the Railroads. p. 21.

to their attention. The transportation situation has within the past four years received more public attention from many angles than it has received since the early "westward movement". The speech President Roosevelt gave at Salt Lake City, Utah, received very favorable attention because the condition of the railroads in September, 1932, was such that the country listened most attentively to his analysis of the problem. In that speech may be gained a little insight into the future of consolidation from the governmental attitude.

The nation cannot get along without the railroads. It also realizes that it cannot let them depreciate through any manipulations contrary to the best interests of the public. The railroads make certain at all times the transportation of supplies to the thousands of American cities.

The financial structure of the railroads is of vital importance to the great army of men who operate the railroads. Their economic welfare is wrapped up in the ability of the railroads to earn a profit and thus pay substantial wages. We cannot dispense with the railroads because of the transportation service they render and because of the immense investment of the American people.

Trends during Periods of Reconstruction

It seems that during a period of reconstruction such as we are experiencing today that "there is a trend towards government ownership through the medium of consolidation of the railroads. There will come an opportunity, in the not

distant future, when economic conditions will make proposed strong systems, weak, and there will be no one to act as nurse except the government. Then the public will have to be satisfied on the one hand with whatever changes the government elects to give or offer, and on the other hand, with the character of service placed at its convenience,--a duplication of federal control." (1)

In support of this governmental influence in the financial structure of our transportation systems we find George W. Anderson in the Atlantic Monthly making this statement-- "In spite of a large increase in investment (about 6 billions) during the last twelve years, the railroads now seem worth less than they then did. The new money has been sunk. Many of the outstanding bonds must be scaled down--a difficult but necessary job, already anticipated by market prices. Obviously, the scaling down of about 12 billions of debts to three fourths or even five sixths of that sum, for the benefit of stockholders, is an undertaking of great doubt and difficulty." (2)

The railroads even in normal times have a very low rate of return. In times of crisis the railroads have had to ask for assistance from the government. Two outstanding times when the railroads asked for such assistance were within the past twenty years. The first time was when the federal control over railroads ceased in 1920 and they were turned back

(1) H. W. Ordeman, The Consolidation Equation, p. 7.

(2) J. W. Anderson, Salvaging our Railroads, The Atlantic Monthly, December 1932, p. 713.

to their former owners. The government of the United States "again came to the aid of the railroads after the depression which began in 1929. During this period the government loaned money to the railroads through the Reconstruction Finance Corporation--a corporation set up in 1932 to aid banks, railroads, and other industries. To October 31, 1934, the Interstate Commerce Commission had approved of Reconstruction Finance Corporation loans to railroads to the amount of \$512,537,291.34." (1)

The size of the task certainly takes it out of the hands of private control. It assumes the proportions of some field of activity on the part of our federal government. This federal control, if administered wisely would add greatly to the solution of our transportation problems and perhaps help in a proper consolidation of the transportation systems. Perhaps with the government in command of our resources of transportation we should set up some control on behalf of the general public. "Minority representation might well be granted to stockholders, and perhaps also to employees, on a scheme of representation to be worked out in detail by the Interstate Commerce Commission. But control must be by, and in behalf of, the public." (2) This control would make the transportation systems financially strong because it would eliminate much of the waste of competing parallel lines which

(1) D. P. Locklin, Economics of Transportation. p. 353.

(2) J. W. Anderson, Salvaging our Railroads. The Atlantic Monthly, December 1932. p. 712. Underlined sentence is in italics in the original.

are operating throughout our country today. One but needs to look into the past history of the number of our railroads to realize we have already gone a long ways toward the realization of a consolidation of our transportation systems. Parker Thomas Moon believes if we are to have railroad combinations and consolidations of our systems that this consolidation will "greatly facilitate the administration of federal regulation. If we could visualize what the situation would have been if all the different railroad systems in this country were still in their original status, that is to say, that in place of each of the big systems there were fifty or a hundred or more separate railroad companies operating little sections of line, we could see the progress that had been made toward the development of large railroad systems, prior to the repressive construction that was given to the Anti-Trust Act, was very much in the public interest from the standpoint of regulation, for it is much simpler for the Interstate Commerce Commission to regulate the fifty, sixty or seventy systems of substantial size which we now have in this country than to regulate several thousands, dividing up the traffic and the operation of the existing systems which now control most of the business. It would be still further in the public interest from the standpoint of railroad administration if the number of systems were reduced,

as I hope it will be eventually, to ten, twelve, or fifteen-- something like that." (1)

Whether our government can, directly or through powers vested in its agent, the Interstate Commerce Commission, force consolidation of state-chartered corporations is a question fraught with grave constitutional difficulties. We can hardly expect the managers of all the operating railroad companies, whose policies and performances are not always conceived for the best public interest, to give any substantial help in solving our transportation problem. We still have over six hundred operating railroad companies, many of them wildly competing with each other for traffic. There may be some truth to the statement concerning the persons who oversee our transportation systems that they are not interested in consolidation of the systems they represent. Many have said that we have a large number of overpaid and not very competent managerial forces which tend to offset and hold back any effort to consolidate or coordinate our railways. They say these forces are more interested in keeping available a large number of highly paid official positions than they are in the public need for improved and cheaper rail service or in the rights of their security holders. The recent action of Coordinator Eastman in reducing the salaries of these highly paid managers has helped to reduce the overhead expenses of many railways.

(1) P. T. Moon, Railroad Consolidation, Proceedings of the Academy of Political Science, Volume 12 #3, June 1929, p. 10.

These formerly highly paid executives have worked up through their organizations. They have failed to correctly appraise the loss which their transportation systems are suffering because other means of transportation are more modern. The executives at the head of the new transportation agencies have been more modern in their outlook toward the interests of the travelling public and the future.

There has been some doubt in the mind of the public as to whether all our leaders in the railroad transportation industry have always had the best interests of the travelling public in their plans. "Our higher executives also need to get a different view-point of the functions of railroads. It is their job to furnish transportation for the masses of citizens at as low a cost as is consistent with safe and economical operation. And we don't begin to know how low such costs can be." (1) The railroads drive the passengers to the busses, and then wonder why they do not ride the trains.

The past activities of Coordinator Eastman brought to the attention of the public, through the medium of the press, the abnormal salaries which transportation executives received. This revelation drew much public attention for a short period of time. To many people in the average walks of life who understand these things it caused much debate regarding our transportation agencies and the value to be derived

(1) The Literary Digest. September 10, 1932. p. 37.

from each. To others this has been one of the strongest and most logical arguments for the policy of the Federal Government taking over control of our transportation and consolidating it into a few large systems. The railroads have been publicly controlled but privately owned for sometime which makes for a hybrid arrangement. "When an industry becomes so public in character that such intimate regulation of its affairs becomes necessary, in strict logic it would seem that it should cease to masquerade as a private industry and the Government should assume complete responsibility, financial and otherwise." (1)

Our Federal Government has obviously great intrinsic advantages over any state-chartered corporation in the field of interstate rail-highway transportation.

It is an encouraging fact that our tendency is now towards drawing into our public service a full proportion of our citizens who have ability, character, intelligent activity, and a social sense to aid us in the problem. Our statesmen should in the near future, consider wisely the reorganization and coordination of all our means and methods of transportation. Steps have been taken in this direction but only in an introductory way. There are difficulties in consolidation and regulation of all our agencies.

(1) The Literary Digest. February 3, 1934. p. 46.

The multitude of systems act as a barrier to the coordinating principle. The problem must be solved unless we are to have chaos in our transportation systems. Perhaps we are going to have stringent government regulation that will eventually lead us to government ownership. If such an event actually happens some of us wonder if government ownership will be adopted on a sound plan. An affirmative answer requires an optimistic disregard of the forces of blind greed and unenlightened selfishness that have generally dictated our American policies and politics in recent years.

It is with these facts in mind that we may profit from a brief study of the President's message to the Congress, (found in Appendix) the resolutions offered in the Congress, and Coordinator Eastman's reports and views on the future policy of consolidation of our transportation agencies.

The President in his message to Congress says our "railways still constitute the main arteries of commerce." (1) "For ninety years railroads have been the means of tying us all together in national unity." (2) He then goes on to a discussion of the available traffic and its insufficiency to maintain our transportation systems running at a profit. It is hard to find adequate statistics to work upon in a determination of the future traffic of the railroads because of the new transitionary period we are experiencing in nearly

(1) Document 32, 73d Congress, House of Representatives, May 4, 1933.

(2) The Railroads--President Franklin D. Roosevelt's Speech at Salt Lake City, Utah. p. 4.

all forms of business activity. We have had many changes in the transportation industry in the past five or six years. Many of these have been of such a nature that they have helped the agencies that have been competing with the railroads. The railroads have taken up the streamlined train idea, some in a half hearted fashion while others have gone into the new phase of design with a great deal of earnestness. The railroads have spent considerable money during the past two years in extensive advertising in an endeavor to get more passengers aboard the trains. The railroads have been trying to bring to the public's mind that the new ideas in train design are different--but symbols of the same idea in the past when they were known as the safest, most serviceable and progressive transportation system in the world.

The new trend in railroad advertising exemplified in "Seeing America First" is letting the people know the value of railroad service whether it be a trip to Maine--"The Vacationland", to Florida--"The Sunny South" or to California--"The Beautiful West Coast".

"It is quite certain that a new phase has opened in the history of the industry, and that it is no longer safe to rely upon the past as a guide to the future of railroad traffic and earnings." (1) Many of the railroads are giving special

(1) D. Hinshaw. Stop, Look and Listen--Railroad Transportation in the United States. p. 6x.

rates between cities. Considerable advertising is being done by the railroads for speedy trips between cities, some advertise the wonders and beauties of some outstanding vacation resort.

The trends during the period we are now passing through are very marked. Only a few years ago crowds gathered at every station to see the Twentieth Century Limited make its speedy trip from New York to Chicago in twenty-four hours. Today the Twentieth Century Limited makes that run easily in sixteen and one-half hours. Private control of the transportation industry is endeavoring to see the mistakes of the past and retrieve its lost ground. In the past one went to the station to catch a train that was designated by hour and minute. Today one makes his reservations for the Sunset Limited, the Hiawatha, the Abraham Lincoln, the Green Diamond, the Mark Twain Zephyr, the Mountain Bluebird, the Super Chief, or the Abraham Lincoln. If one wishes to get into a technical discussion about the construction of these new trains he hears about stainless steel, articulated units, articulated rails, safety-glass, air-conditioning, Diesel power units, pastel upholstery, aluminum chair frames, hermetically sealed windows, diaphragm vestibules, etc.

The railroads found that they had to do far more than meet the price of a bus ticket. They knew that they must over-

come the prejudices the passengers had toward the railroads. The railroads are endeavoring to "personalize" their service. We now have "off the beaten track" excursions and we hear of "Fisherman's Specials", "Hiker Trains", "Ski Trains", Bicycle Excursions", "Mystery Trips" etc. There is scarcely a section of our country that is not witnessing today the dramatic moves the American railroads are making to demonstrate that they are progressive. With the lowering of rates and the introduction of modern improvements in power design the railroads are selling to passengers today a safe and comfortable ride. It is sure to bring back to the railroads some of the big losses they have taken in passenger traffic in the last fifteen years. (1)

Traffic on Transportation Agencies

The shrinkage in railroad traffic from former years may have several explanations--the lessening of expansion, the successful competition of other transportation agencies, or reduced normal consumption of goods in the country. The reduction of passenger traffic began to be noticed as far back as 1915.

There is little doubt but that the period of expansion is over. We no longer have any large areas which have not been explored or are unknown to the people. However, we must not forget that our period of expansion was possible only through the available use of transportation systems that had

(1) Supra, pp. 17, 18.

been built. During that time the railroads built many short lines which were to be feeders to the main lines which traversed the country. "In New England, according to the Commission's figures, a little less than a billion dollars is invested in eight thousand miles of railway. A great deal of this mileage is in branch lines, built years ago to handle the large volume of short-haul traffic now gone to the highways. So the estimate is that 25 per cent, or two thousand miles, is today unprofitable." (1)

Our problem of consolidation of the transportation systems must take into consideration the large number of small systems which control branch lines. This important factor of consolidation requires consideration because "The hunger for traffic upon the part of individual carriers has driven many of them to seek marginal traffic often paying little above out-of-pocket expense, which properly should be handled by more direct routes. This is exemplified in many cases by circuitous routes, which are sometimes as much as twice as long as the more direct routes. A further reflection of the same urge is found in the desire of carriers to retain on their own rails the longest possible haul, with the result that similar circuitry in routes results. It is difficult to measure in dollars the expense which arises on this account, because of the inability to separate the traffic which moves over the

(1) The Literary Digest, December 10, 1932. p. 36.

circuitous routes from direct traffic moving in the same train or over the same line of railroad." (1) Under our present systems of transportation there appears but little possibility for the effective coordination of our transportation systems with the common purpose of transporting goods. The fact that they are separately organized competing agencies is in itself a counteracting influence. The ultimate aim of our transportation agencies should be the working out of a system which will make it possible to move goods from their starting point to the point of final destination with the lowest possible cost to the public. If such a system could be worked out we would be able to utilize our transportation industry in the most economical way.

The President of the United States certainly had these details in mind when he said "available traffic is not sufficient profitably to utilize existing railway facilities." (2) Doubtless we need to continue our railroads for transportation purposes because we deem them necessary for the ongoing of American life, but it is incontestable that a large share of our present railroad mileage is unremunerative. Perhaps we realize now that we have thousands of miles of trackage that ought never to have been built in the light of present day transportation improvements.

(1) Regulation of railroads. Senate Document No. 119 from the 73d Congress, 2d Session, p. 10.

(2) Document 32, 73d Congress 1st Session, House of Representatives, May 4, 1933.

There has been a somewhat steady abandonment of railroad mileage since the passage of the Transportation Act of 1920. The summary of this abandonment, according to the Interstate Commerce Commission, since 1920 is stated as follows: "From the effective date of section 1, May 29, 1920, to October 31, 1934, the Commission granted 845 applications involving abandonment of railroad lines or of the operation thereof, of which number 317 were contested and 537 were uncontested cases.

During the same period the abandonment permitted, involved 704 miles of main line, 5,753 miles of branch line, and 63 miles of other mileage, of Class I carriers, together with 6,408 miles of so-called short lines, of which 4,612 constituted the entire lines of the carriers and 1,795 miles only portions of such lines.....The reason generally advanced to warrant abandonment in those instances was insufficient traffic, resulting from various causes, including failure of expected traffic to develop, exhaustion of sources of traffic in the case of forests and mines, and losses of traffic to competing lines of railway or other transportation agencies." (1) During the year 1935 "the mileage of railway main track abandoned was 1,843 miles." (2)

The abandonment of railroad trackage has brought about an increasing attention to the competition that our railroads are meeting. The investment of public funds in highway and waterway facilities is put forth as one of the

(1) Railroad Data, March 29, 1935. p. 25.

(2) A Yearbook of Railroad Information, p. 15.

chief causes of railway abandonments. The urge to build new trunk highways and vastly improved waterway facilities has had an influence on the railroads. These new facilities are not generally needed because there is a lack of available resources in the transportation industry. Trunk highways and waterway facilities have been expanded during the last ten years through the use of public and private funds. These funds used to find their way into the railroad agencies by the millions of dollars. Because of the diversion of these funds from the railroads we see abandonment of railroad properties. The effect of these competing agencies has been noticed in financial circles.

A large share of our investing public is made conscious of these competing forces because of reduced income from the railroads and because of increased investments in other means of transportation. The traffic that would be available in the future will have to be shared in part by the railways and part by other transportation agencies in which there have been invested within the last twenty years an amount equal to the entire investment in the railways. Moreover, the prevailing tendencies, perhaps unwholesome, make against the effective use of all transportation facilities, and particularly transportation by rail. We now have a great excess of transportation facilities of all kinds. This excess of transportation agencies will probably be with us for a number

of years in the future. This in itself will offer a major problem but with the decrease in the population growth it will require considerable public interest in the solution of our transportation problems.

The investments in other means of transportation outside of the railroads, with a present surplus in transportation, merits wide study. A joint effort on the part of the federal and state governments, and the private owners of our railroad systems to bring about a consolidation and reduction in the surplus facilities of transportation would be an act of wisdom. The addition of new means of transportation to the existing surplus will only accentuate the tendency toward wasteful competition.

Perhaps this will call for economic planning with the predominating purpose of determining by impartial investigation, the quantity of the demand for the movement of goods and persons from place to place now and in the future. This study will consider the demands of the present and as far as study can determine it will use the data developed by painstaking students of the transportation problems in predicting the possible trends of the future.

In a period of economic transition such as we are now going through it is particularly important to consider all the data submitted by the Federal Coordinator of Transportation and other organizations.

The values of our rail facilities have been greatly

lowered by the new means of transportation which have taken root in our country. The experiences of the past five or ten years have pointed toward the weaknesses of competitive regulation of transportation. There is no doubt but that the depression conditions contributed many problems to the transportation field but the inequalities of regulation have been of major significance. The technical revolution that introduced the highway competition has opened up an entirely new scheme of transportation to the country. It has brought us problems of regulation, control, and rate-making. But because of the repidity of change, neither self nor government control will prevent the maladjustments that necessarily come in at such times.

The competitive facilities that have brought trouble to our railroads during the past fifteen or twenty years are increasing every day. Oil goes by pipe lines, so does natural gas. "During the last thirty years, also, we have witnessed the development of an extensive pipe line mileage and the substantial beginnings of air transport. The construction of oil pipe lines began as early as 1860 but the rapid growth of this specialized form of transportation dates from about 1900. At that time there were from 10,000 to 15,000 miles of pipe lines in the country, mainly east of the Mississippi River. At the end of 1931 there was a total oil pipe line mileage of 111,000 miles, equal to about 45 per cent of the

total railway mileage of the country. Gasoline pipe line mileage aggregated 3,210 miles." (1) Their most serious competition is with trucks and busses. "The number of freight-carrying cars in the service of the Class I lines has shown a steady decline from the peak reached in 1925. The decreases in the last five years also reflect the lowered level of freight traffic. The following figures show the number of freight-carrying cars owned by the Class I roads: privately-owned cars are not included.

1920.....	2,322,122
1921.....	2,315,692
1922.....	2,291,392
1923.....	2,315,612
1924.....	2,348,725
1925.....	2,357,234
1926.....	2,348,679
1927.....	2,324,834
1928.....	2,297,589
1929.....	2,277,506
1930.....	2,276,867
1931.....	2,201,510
1932.....	2,144,730
1933.....	2,034,886
1934.....	1,938,362
1935.....	1,835,736" (2)

The number of trucks has been steadily increasing and today there are over 3,000,000 trucks on our highways. (3)

The railroads will continue to carry coal, ores, and crude heavy stuffs. The lighter short-haul traffic will go to the trucks because they have an intrinsic competitive superiority in this field. The truck is vastly useful but the basic and fundamental transportation system

(1) H. G. Moulton. Fundamentals of a National Transportation Policy. American Economic Review Supplement, March 1934. p. 35.

(2) A Yearbook of Railroad Information. p. 8.

(3) Supra, p. 18.

of our country is that of the railroads. The railroads move goods by tons and tons, the ability of the truck is represented in pounds, and the airplane carries its fast freight and charges for this service by the ounce.

The competition between the rival systems of transportation is increasing. The motor truck has extended its field in so many directions that there has arisen a question as to the real economic value of such a wide-spread competitive service. The value of the short haul truck is economically sound but the expenses of the long haul trucks leave some doubt as to whether they make money when all factors are considered. The large number of "for hire" or "contract" truck carriers who operate without any real policy of rates has encroached upon the legitimate operators of trucks and has led to a policy of unregulated competition. The consolidation of all these agencies with a fixed policy of rates and services would greatly aid in giving the public transportation on a sound economic basis.

The existing conditions are unfair to the railroads, which are heavily taxed and move on purchased and owned rights of way, while the trucks move on free roads, in considerable part paid for out of taxes levied on the railroad transportation systems. These increases in competition from motor vehicles, waterways, pipe lines, and airplanes have caused the railroads to compete with one another more fiercely than

ever before.

The development in the field of air transport has made surprisingly rapid advancement during the past few years. It is not yet a serious competitor to the railroads or the bus but it will undoubtedly be one of the transportation improvements of the future. It will carry increasingly more passengers who require the speed of air service and its service in the valuable express shipments will be extended. Certainly the shifting of points of production, manufacture, and distribution, caused by changing economic and social conditions, will make use of these means of transportation necessary.

The situation that our railroads are in demands of us an outlook which is broad, because, underneath all the troubles which beset the industry it will be seen that the railroads of the country together, form a single transportation system. The joint operations of this network is of far more importance than the local operations of certain lines. This would be very evident if we were brought into war and our transportation systems were called upon to furnish adequate transportation facilities for not just passengers but for heavy goods transportation to any corner of the United States.

Our Broad Problem

Chapter V

Emergency Transportation Act of 1933

The recognition that our transportation required a broad outlook brought forward from the President of the United States the third suggestion that is found in his message to the 73d Congress concerning our transportation problem.

"Soon after his inauguration, the President through the Secretary of Commerce set up committees to put into effect the program he outlined in his speech at Salt Lake City. After conferences with Chairman Sam Rayburn of the Committee on Interstate and Foreign Commerce of the House and Chairman Dill of the Committee on Interstate Commerce of the Senate, the President sent a terse message to Congress. After open hearings by each of the Congressional Committees, a bill known as the Emergency Transportation Act, 1933, was passed." (1)

This Act consists of two main parts: Title I, was to help the railroads out of the problems which the depression had visited upon them; and Title II, which contained several important amendments to the Interstate Commerce

Act.

The more definite purposes of title I of the Emergency Railroad Transportation Act are found in section 4, "(1) To encourage and promote or require action on the part of the carriers and of subsidiaries subject to the Interstate Commerce Act, as amended, which will (a) avoid unnecessary duplication of services and facilities of whatsoever nature and permit the joint use of terminals and trackage incident thereto or requisite to such joint use: Provided, That no routes now existing shall be eliminated except with the consent of all participating lines or upon order of the Coordinator, (b) control allowances, accessorial services and the charges therefor, and other practices affecting service or operation, to the end that undue impairment of net earnings may be prevented, and (c) avoid other wastes and preventable expenses; (2) to promote financial reorganization of the carriers, with due regard to legal rights, so as to reduce fixed charges to the extent required by the public interest and improve carrier credit; and (3) to provide for the immediate study of other means of improving conditions surrounding transportation in all its forms and the preparation of plans therefor." (1)

In order to accomplish the aims of the Act the office of Federal Coordinator of Transportation was created. There

(1) Regulation of Railroads, 73d Congress, 2d Session, Senate Document No. 119, p. 38.

are two ways by which the Federal Coordinator was to receive his appointment. He could be appointed by the President with the advice and consent of the Senate, or he could be selected from the membership of the Interstate Commerce Commission.

The first part of the Act, which was an economy measure through the joint use of facilities and the prevention of wastes and avoidable expenses, is imposed as a duty both upon the railroads and upon the Coordinator. In order to properly carry out this purpose of the first section of the Act the railroads were directed to set up regional coordinating committees. These regional coordinating committees were to be designated as eastern, western, and southern. These committees were to be made up of regular members, special members and an executive secretary. The Federal Coordinator of Transportation was to confer in all problems of the group committees. The Coordinator was very much interested in the preventable wastes of competition and he said "Some have looked upon this search for waste and preventable expense as merely a project for limiting and curtailing service. If I thought of it as that, I would not be for it. More than ever it is important, with the competition by which the railroads are now confronted, for them to give not only good but better service. They cannot afford to wean away traffic. That will drain away net earnings quite as

effectively as any unnecessary expense. It is my hope that in our search for economies we shall find means of improving service, both freight and passenger, and shaping it to meet present-day conditions." (1)

In order to carry out the vast amount of research which the Act demanded the Coordinator divided the work among three groups which were known as the central, a regional, and a research staff. The funds with which to carry on this vast amount of research were to come from a direct assessment on the railroads.

The central staff was to carry on research which was of importance to all sections of the country. This staff would make a study of adjustments of service, both freight and passenger, which would be adequate to meet present-day needs. The aim of this staff was to sell such services as the railroads could offer to the public in a new way.

The regional staff was to devote its energies to the securing of economies in local areas. This was to be a service to shippers in an effort to secure the joint use of various facilities, the elimination of wasteful routes, and terminal unification.

The research staff was to be rather broad in nature and make a study of matters which would improve transportation conditions in a general way. It was to make these studies with the aim of suggesting legislation to secure the general

(1) Regulation of Railroads, 73d Congress, 2d Session, Senate Document No. 119, p. 38.

improvements in transportation.

The Coordinator was required by the Transportation Act of 1933 to carry on investigational activities which would lead to economies, unification and consolidation. The railroads had many plans for making economies in their service costs. The labor restrictions (Section 7b of the Act) prevented the railroads from carrying out a major portion of the plans they had for economies. These sections which were "designed to protect the interests of labor.....are as follows: (1) The number of employees in the service of a carrier may not be reduced by reason of action taken under this Act, below the number in service during May 1933 after deducting the number removed by death, retirements, or resignation. The Act also provides that no employee shall be deprived of employment such as he had in the month of May, nor be placed in a worse position in regard to compensation by reason of any action taken under this Act. (2) The Coordinator is directed to establish regional boards of adjustment where action is taken under this Act making necessary such boards. These boards are those provided for by the Railway Labor Act of 1926. (3) The carriers must compensate their employees for losses and expenses imposed upon them by transfer of work from one locality to another. The Coordinator is to provide means for determining the amount of compensation in such cases." (1)

(1) D. P. Locklin, Economics of Transportation, p. 262.

Appointment of Coordinator of Transportation

President Roosevelt appointed Joseph B. Eastman to take the office of Coordinator which was created by the Transportation Act of 1933. Mr. Eastman has long been associated with transportation problems and is a man able and willing to take up such a large task as confronts our transportation agencies.

The President and the members of Congress realize that drastic steps are necessary to correct the evils of our present transportation problems. They believe that a Federal coordinator, with wide powers subject to reviews, in case of protest through the I. C. C., should be able to offset many of the influences which have brought the transportation systems of our country into a muddle. Perhaps such a man needs the wisdom of a Solomon, the strategy of a Napoleon, and the backbone of a Lincoln to get through all the details and ideals which may be thrust upon him in solving the present day problems of transportation.

Coordinator Eastman did not believe that the Emergency Railroad Act of 1933 would be the final answer to the transportation problem but only a means of finding the answer to this most difficult problem. The Act was to be the means of exploring thoroughly the ways of improving the net earnings of the railroads and chiefly the drain which many believe is causing the unnecessarily keen strife of the railroads with each other. It also aimed to find out what ability

the railroads had to act for the common good without imperiling any public interest. The aim of Mr. Eastman, in administering the Act, was to be conservative and not to make speedy changes. He wanted to have sound progress based on thorough preliminary investigation which would lead toward an ultimate major improvement in all transportation conditions. Mr. Eastman went about his work in a systematic way and many things have been done for the best interests of the public.

Mr. Eastman, as coordinator, has pushed through Congress since 1933 the major part of a plan to bring American transportation under a unified control. For sixteen years Mr. Eastman was a member of the Interstate Commerce Commission, and his plans called for the extension of the Interstate Commerce Commission's powers to all interstate carriers by highway, water and air. His program fundamentally changes the past position of the Commission and puts the United States government in the foreground as the regulator of all means of transportation on a much larger horizon.

Mr. Eastman's background has tended to lean toward the policy of government ownership of our transportation industry. He has definite ideas as to railroads being public in character and when they have been subject to intimate regulation he believes the government should assume complete responsibility, financial and otherwise in the operation of our vast railroad transportation system. He, of course, realized that there were dangers incident to such an under-

taking by our government but he believed that such ownership and operation of our transportation systems would be the ultimate solution of the railroad problems. It is to be noted that Mr. Eastman was very cautious in his remarks concerning the government taking over the railroads. He certainly does not call for such action at the present time. Perhaps this is based on the fact that if the government should plan to take over the railroads it would necessitate a large outlay of money at this time. "Government ownership of the railroads would cause an immediate rise of 21 billion dollars in the public debt. In addition, it would take 500 million dollars a year to make up operating deficits and to offset the loss of state and local taxes." (1)

Coordinator Eastman looked forward to the day when the railroad industry would not be able to swing the business itself because "private enterprise and capital will not be able to carry on successfully" (2) under the severe competition of the other forms of transportation. There may be little theory or logic in such reasoning but the practical events may cause such an event to happen. Mr. Eastman, as coordinator, encouraged the railroads to secure government aid financially and voluntary action by the carriers in the direction of economy, cooperation and separate consolidation moves. It is to be noted the recent small con-

(1) Railroad Data, May 3, 1935, p. 37.

(2) The Literary Digest, February 3, 1934, p. 46.

solidation moves taking place and the protection to be given the railroad employees in salary remuneration for one year with re-employment provisions, are but an outgrowth of some of the work of the Coordinator and his staff of workers.

Probably no other man in public life has written so much on the problems of our transportation agencies. He has written unusual decisions in an easily read style, free from the railroad jargon. There is a consistency that runs through all his decisions. From the early history of the holding company's influence on the railroads he has condemned its control. He has criticized the fees and charges paid out in the reorganization of bankrupt carriers, and he has emphasized over and over that the roads must modernize their services to keep pace with the newer forms of transportation.

Eastman took seriously the duty imposed on him by Congress to devise measures to secure economy of operation and the avoidance of duplication of transportation facilities. The surveys he started in 1933 have suggested many changes which would have a vital affect on the railroad transportation agencies of this country whether they remained under private operation or were taken over by the government. With a small number of workers on his staff and only a limited amount of money, Coordinator Eastman has led out in research into railroad operation, service, equipment and rates. The work of the staff has produced plans for the better handling of pass-

enger, merchandise and freight carload traffic. Many of these proposed changes have been called impracticable but the research has brought forth methods calling for many modern changes in our present transportation agencies.

Railroad Managements and their attitude toward the problem

The coordinator in his report to Congress, found in Senate Document No. 119 remarks that "Much will depend upon the railroad managements. They are of one mind in opposition to public ownership and operation, and in general they are against grand consolidation plans. One or the other of these remedies, however, will eventually be applied, unless the managements are able to remedy present ills in some other way. This alternative, if it be possible, can only take the form of a better organization of the railroad industry which will enable them to deal collectively and effectively with matters which concern them all. The managements must pull together instead of pulling against each other in a great variety of different directions. The difficulties are great, and I am not at all sure that they can be surmounted. The tendency to cling to assumed individual advantages in preference to those which would be gained by coordination or correlation is ingrained, and it may be impossible to overcome. But it is well that the managements should have the chance to apply the principles of statesmanship, and with the help of the Government, at least at the outset." (1)

(1) Regulation of Railroads--Senate Document No. 119, 73d Congress 2d Session, p. 33.

The railroad organizations have during the past few years seen the advantage of unified cooperation. These organizations have formed the Association of American Railroads which in itself is a symbol of the new attitude of the American Railroads in attacking the problems of transportation. The new organization will study features of railroad operation which require common action leading to a better cooperation or coordination of their activities.

"There is, and has been for many years, a great deal more cooperation and coordination in railroad operating and research than is generally realized. The very fact that freight cars move freely and without obstruction throughout the United States, Canada, and Mexico is, in itself, the result of a long growth of cooperation.

"While under the Emergency Transportation Act all proposals which the Federal Coordinator may make are necessarily given by him to the Regional Coordinating Committees created by the Act, it is only natural that many proposals affect the railroads from a country-wide standpoint rather than regionally. Because of this it has been found desirable that a single organization should give the proposals study, and the Regional Committees have authorized the new Association to handle the subjects. We are glad of the opportunity for service to the industry which exists in the handling of

these proposals, and are giving all of them the comprehensive study which they merit." (1)

The railroads have for years engaged in research work with the manufacturers of their equipment. They are now branching out into a broad field of research with a view to bringing about still further improvements in railroad transportation.

(1) Railroad Data. April 12, 1935. p. 31.

The Future of Consolidation of Our
Transportation Systems
Chapter VI

The Prince Plan

The future problems of the railroad transportation industry demand solution so that the work of our transportation agencies may be stabilized. This stabilization may require fundamental changes in the regulation and the organization of the transportation systems. The Transportation Act of 1920 failed to stabilize the field of transportation. At the present time there seems to be a tendency to find stability in all fields of business by a consolidation of effort. The railroad industry is today confronted with several courses of action which may be taken in the future. These may be briefly stated as follows: (1) a return to the freedom of early days with no interference of any kind; (2) a continuation of our present methods of regulation and control over our transportation agencies realizing its weak and strong points; (3) the transfer of all railroad properties to the Government; (4) the cooperation of the present managements with government agencies.

The Prince Plan is largely based on the cooperation of the present managements with representatives of business and government.

The plan under discussion was presented to the Federal

Coordinator of Transportation on March 15, 1933, by Frederick H. Prince, of Boston, Massachusetts. Mr. Prince's plan proposed to consolidate the railroads of the United States into seven systems, two in the Eastern section of the country, two in the Southern section, and three in the Western section. The fundamental principle of the Prince Plan was to preserve competition but to do away with all parallel lines in intermediate sections.

The consolidations to be effected by this plan were to result in economies of over \$700,000,000. This was the first plan that actually presented economies in dollars and cents and it attracted the attention of the Secretary of Commerce in such a way that he requested the Coordinator to make a report on the Prince Plan.

Many of the economies were to be effected by the concentration of traffic on most favorable routes. A majority opinion of the committees studying this plan was that the economies could not be realized by voluntary coordination. It was also noted that the economies first suggested by the staff working under Mr. Prince were somewhat exaggerated.

"The steps necessary to bring about consolidation, and whether or not aggregations of railways in great systems of the type proposed in the Prince plan could be effectively managed, are vital problems.

"An outline accompanied the Prince plan of the corpor-

ate and financial structures of the proposed systems, and of the methods of bringing them into being. Temporarily, leases were to be the means of union, to be succeeded eventually by corporate consolidations; and it was anticipated that the leases could be accomplished voluntarily. If the savings of \$740,000,000 originally foreseen could be depended upon, such voluntary arrangements might, perhaps, be practicable. But the greatly reduced savings now estimated by the committees would afford a much less persuasive inducement to voluntary action, particularly if it was necessary to make provision for the protection of labor. Nor does the attitude of many of the railroad managements encourage the hope of voluntary action." (1)

Public Ownership

Public ownership and operation of railroads is not inconsistent with our theory of government. When we study the early charters which were given the railroads it is easy to find the contemplation of such a possibility. The Supreme Court has often recognized that the railroads are in fact a public industry and that this industry performs a function of the state. Although private corporations were the first to build and operate the railroads of this country the Supreme Court recognized the public character of this mode of transportation in an early case "That railroads, though constructed by private corporations and owned by them, are public highways, has been the doctrine of nearly all the

(1) Regulation of Railroads. Senate Document 119, 73d Congress 2d Session. pp. 114-115.

courts ever since such conveniences for passage and transportation have had any existence. And in *Smith v. Ames*,⁽¹⁾ the Court said: 'A railroad is a public highway, and none the less so because constructed and maintained through the agency of a corporation deriving its existence and powers from the State. Such a corporation was created for public purposes. It performs a function of the State.' " (2)

It is true that public regulation of our transportation systems has been criticized from many angles. The two most outstanding points of criticism are: (1) it has not protected the public in all the details of transportation and (2) it has been unjust to the railroads themselves. There is little doubt but that public regulation is an interference with the management and it involves divided responsibility to a large degree. We then have a situation which has two masters.

Government ownership is only a substitute for the present system of private ownership of our railroads with public regulation. Those that advocate government ownership think that there will be great economies effected because the present method of regulation by the Interstate Commerce Commission is very expensive. These same advocates see in government operation and ownership of the railroads the elimination of railroad strikes. In support of this they say that the government would be much fairer in its dealings with the labor

(1) 169 U. S. 466, 544 (1898)

(2) D. P. Locklin, Economics of Transportation. p. 648.

group.

Contrasted with these views is the able summary presented by Mr. James B. Hill, President, Louisville and Nashville Railroad, who "declared his opposition to government ownership and operation of the railroads in this country on the following grounds:

1. Until each form of transportation has an opportunity to determine its economic status under equal conditions.
2. With almost half of the country traffic moving by means other than railroad, if the railroads are to be governmentally owned and operated, all other forms of transportation must, consistently, be so owned and operated.
3. To own and operate the railroads alone would add twenty billion dollars or more to the public debt to be paid by taxation. If other forms are also owned the public debt would be appallingly increased.
4. It is estimated that the withdrawal of taxes now paid by the railroads, if they were owned and operated by the government, would increase the taxes a substantial sum per day on every living person in the United States. Otherwise, schools and other institutions of government supported by present railroad taxes would certainly suffer.
5. Although railroads privately owned are affected with a public interest and admittedly should be reasonably regulated, it does not follow that transportation is a governmental obligation or function. To transport goods or persons is more appropriately a private function, and, regardless of the regulation or ownership of carriers for hire, a large part of the country's passage will be under individual rights and control.
6. Only about 40 per cent of the railroad mileage of the world is governmentally owned, and the larger part of this is in countries the form of whose government varies widely from our own beliefs and standards. In no country, however, has government ownership been undertaken for economical reasons.

It has almost always been forced upon government by circumstances or necessity, such as military measures or where private capital could not be had.

7. Government ownership and operation of railroads have in almost all countries resulted in deficits to be paid from taxation, the rates to the public are generally higher than those prevailing in the United States, the service is generally inferior, and the average wage to employees is generally less.
8. England has the best railroad facilities in Europe. They are privately owned. The privately owned railroads in France are better than those of that government. Italy and Belgium turned their railroads over to private corporations in an effort to relieve the government of their burden. The private system in Canada operates on the same rates as the government railroad, yet the people pay around \$50,000,000 per year to meet the deficit of the government railroad.
9. Railroading is an art requiring specialized knowledge, individual resourcefulness, and responsibility answering to intense supervision and control. It rewards initiative and ability. These things are not generally cultivated in bureaucratic organizations nor maintained when political influences enter.
10. Under our form of government where the mass vote frequently places the ignorant or demagogue in the seats of authority, an enterprise so vast, so difficult, so important as the railroads should not be taken from the hands of experts and subjected to political influence or control. Railroad men shudder to think of the consequences, both as to cost and service." (1)

The railroads are doing a number of things to rejuvenate the entire system of railroading. In this demonstration of renewed public interest they will have the backing of a large number of American citizens. With this public recognition of the good forces at work reorganizing the railroad systems we shall find a new recognition, on the part of the

(1) Railroad Data, June 14, 1935, p. 51.

public, that the motor-truck and bus and other competitors must be regulated in the same manner as the railroads.

"The railroads now furnish the backbone and most of the other vital bones of the transportation system of the country, and we believe this will be the situation for a long time to come. We are not impressed with the thought that they are doomed, in anything like the near future to go the way of the stage coach and canal." (1)

Regulation of all means of transportation

The future will show that the railroads will not be regulated as the sole means of transportation. The Federal Motor Carrier Act of 1935 is evidence of the fact that we shall soon have a coordinated system of regulation of all our means of transportation in this country.

The events which called for the legislation summed up in the passage of the Federal Motor Carrier Act of 1935 are interesting and show the sudden rise in competition which the railroads have had to meet. "During the last decade a multitude of unconnected local motor carrier enterprises have been transformed into a coordinated nation-wide system of transportation intrastate and interstate. Systematic transportation service has reached 45,000 inland communities, and created competition with established rail carriers serving communities already articulated. Passenger miles operated

(1) Interstate Commerce Commission Report on "Fifteen Per Cent Case, 1931, Ex Parte No. 103, p. 580.

by steam railroads declined 40% from 30 billion in 1930 to 18 billion in 1934; but common carrier busses increased their operation 10% from 10 to 11 billion. Electric railway operation decreased by more than 30% in the 5-year period. While steam and electric railways experienced a serious decline in passengers, those transported by public carrier busses increased 25% from 1.7 billions in 1931 to 2.2 billions in 1934. In the same period revenue realized from operation of electric railway cars declined 25% from 695 million dollars to 531 million. Class I steam railroads fared even worse, their revenue falling 37% from 555 million dollars to 346 million. But total revenue of public busses dropped only 8% in 1933 as over 1931, and 1934 found all the loss erased and a slight improvement over the 1931 figure of 310 million dollars. Locomotives and freight cars in operation have decreased 25 and 16% respectively from 1925 to 1934; railway originating tonnage, carloadings, and passengers declined 45, 40, and 50% respectively in the same period. Revenue passenger miles were cut in half, average freight revenue per ton mile fell 16% and average revenue per passenger mile decreased by 33%. Railroad l.c.l. freight declined 57% from 1920 to 1931 and the rate of return earned by railroads declined from 4.99% in 1926 to 2% in 1931, and to 1.79 in 1934." (1)

With the present legislation and the proposed legislation of the future the transportation agencies should react

(1) J. J. George, The Federal Motor Carrier Act of 1935, Reprinted from Cornell Law Quarterly, Vol. XXI, No. 2, February 1936, p. 249.

favorably to these plans. If they try to put their house in order, the future will see laws enforced to protect them from ruinous competition among themselves and likewise the operators of motor-trucks, busses and other forms of transportation will have the same regulation and protection. They will find a stability, progress, and sustained prosperity under the regulation of the new Act that will be impartial and as fair in the correction of abuses.

The passage of the Federal Motor Carrier Act of 1935 is just one relatively small step toward dealing with transportation as a whole. Inasmuch as it is clearly recognized that the field of transportation has ceased to be a monopoly for the railroads these new controls are essential. We must remember that if we are now suffering from excessive competition, not only among the various forms of transportation, but still more from the new types of service. The motor highway transportation has become a major service with a vast future in front of it.

In 1915 there was no competition between motor carriers and railroads. In 1920 the motor truck was competing with the railroads in a substantial way. Public interest demanded legislation in the public's interest and we had a number of outstanding laws affecting transportation agencies of the country.

"To this background of regulatory experience, the pro-

visions of the Federal statute impart a firm tone of adaptation and continuance in the Federal field. Authorization to operate will be successfully invoked in only occasional cases in the near future, for there is seldom discovered a dearth of vehicles already in operation. The provisions relating to consolidation and merging anticipate a limiting of competition among present bona fide and soon-to-be Federally authorized carriers. Public convenience and necessity will be interpreted in the direction of monopoly." (1)

This is a step forward in the right direction. The solution of the railroad problems will be measurably advanced when we have regulation of all types of transportation and the elimination of government subsidies to some of these competing forms of transportation. Another step in this direction was recently taken by the President of the United States when he recommended that the Interstate Commerce Commission be given control of highway, rail, inland waterway, and air transportation. This proposal is in the public interest because we all recognize the need of the railroads and we shall continue to need their services as long as we have any form of transportation.

Gradual Consolidation

In all of the plans submitted and in the legislation suggested regarding consolidation the idea of preserving

(1) J. J. George, The Federal Motor Carrier Act of 1935, Reprinted from Cornell Law Quarterly, Vol. XXI, No. 2, February 1936, p. 269.

competition has been maintained. The magnitude of the plans and the complexity of the details suggested show that a most careful study of the problems must be entered into at this time.

In these voluntary or involuntary consolidation plans, the conception of what the public interest demands should guide us in arriving at any conclusions. The research should be based on a sound, cautious, conservative policy.

The early history of the railroads shows the spirit of consolidation which the railroads entered into themselves. These consolidations were beneficial in the past, and without a doubt future voluntary consolidations will be beneficial in the railroad field. Much of their success depends upon the way in which they are brought about and the terms and conditions. We have had a few instances in the past where consolidations have brought disaster because of the gross extravagance and waste which characterized their creation. These excesses, which occurred in the past, were a result of "holding company" operations. The new methods of control by regulation will probably prevent any repetition of such excesses in the future.

Involuntary consolidation will raise the question of constitutionality. There are some students of our transportation problem who believe that compulsory consolidation would be constitutional. Mr. Leslie Craven, one of

men who submitted a "Plan for New Railroad Legislation", believes that we have sufficient laws now to have compulsory consolidation. "Before considering the several ways in which the roads can be required to unify, it is important to observe that:

(1) Congress, in the exercise of its power to regulate commerce, can require compulsory unification of the various railroad companies into designated corporations.

(2) It can authorize the creation of Federal corporations, and can require them to acquire, and the existing companies to grant, wide ownership or control of the operation of railroad property.

(3) It can forbid the existing companies to operate in interstate commerce, unless such ownership or control is conveyed to the Federal companies as required.

"While Congress could compel the consolidation of railroads under its powers to establish post offices and post roads and to provide the common defense, it is unnecessary to rely upon that authority. Under the interstate commerce clause the Federal Government has ample power to require the compulsory unification of the existing lines into Federal corporations, and to forbid the conduct of interstate commerce by any other corporations. The sovereignty of Congress over interstate commerce is plenary and limited only by the fifth amendment. If Congress decides that

it is necessary to require consolidation in the regulation of interstate commerce, its judgment in that respect is not subject to investigation by the courts." (1)

However, I believe this last resort will come only if the railroads neglect to put their house in order, and it will become a purely financial and administrative expedient of the government.

Possible results of Government Control

There is a great deal of material being published to-day on government ownership and operation of our railroads. There are a number of objections to this method of ownership and operation. First, it would add more than a million men to the large number of Federal employees already on the government payroll. This would make a towering bureaucracy.

Second, the railroads would be under political control and subject to a number of abuses. "The danger most emphasized by the critics of public ownership and operation is political interference in management. It may take several forms, the most important being:

1. Extension of political patronage (the 'spoils system') into the service.
2. Interference with rate adjustments, particularly to help certain groups or localities.
3. Interference with construction programs, particularly to promote large expenditures for the benefit of certain

(1) Regulation of Railroads, Senate Document No. 119 from the 73d Congress, 2d Session, p. 98.

localities, or as a means of social relief.

4. Interference with labor relations, including wages and working conditions.

That these are real dangers has been shown by experience in other countries. The question is whether they can be averted. The first of those listed is probably to be feared the least. It is clear that the railroads cannot be efficiently operated if they are to become tools of political parties. If the issue is made clear, the country will register that opinion emphatically. The workers themselves can be a most important and effective safeguard, if they are allowed to organize freely, for it is far from their wish to be in jeopardy from political changes in government.

Other effective safeguards are practicable. The tendency in countries which have public ownership and operation is now definitely to separate the railroads from ordinary governmental activities and make them autonomous, non-political enterprises." (1)

The dangers of political control are clear. Such political control would unquestionably be seriously detrimental to the whole system, involving inefficiency, waste, extravagance, and the lowering of the morale of the entire group of railroad employees.

Another possible result of governmental control would

(1) Regulation of Railroads, Senate Document No. 119 from the 73d Congress, 2d Session, p. 16.

be the loss of all of the advantages of competition. Competition in the field of private ownership of the railroads has given us such developments as the semaphore systems, the streamlined trains, air-conditioned cars, and a multitude of other improvements under the spur of competition.

It is for the American citizen to decide whether he wishes to set out upon the road at the end of which every citizen is a government employee. For, once we have taken over the railroads and transportation systems it may be found necessary to add the factories and mines from which their equipment and fuel are derived. The question then resolves itself not into what kind of consolidation we want, voluntary or involuntary, but what kind of a State we wish to live under.

Conclusion

The many favorable factors which may be brought out by consolidation of our transportation industry are coupled here or there with some element which does not make the consolidation idea sound.

Each of our various forms of transportation is needed. A proper utilization of each system should be encouraged. In this way the public interest will be promoted and self-interest will give way to the public need for sound, efficient, economical transportation. The vital need today is for a sound national solution to our perplexing problem.

Many public spirited citizens have given extensive study to the transportation problem but we have been slow to work out any solution to the problems presented by the transportation agencies.

Until the public begins to pay the bill of costly transportation and will interest themselves in the fundamental issues, no permanent relief from our problems can be expected. Until that time we can always expect to have the spectre of Government ownership facing us.

The acquisition of the railroads by the government purchasing them at this time would impose a burden on the Federal Treasury which no one can definitely foresee the result of. The clear intimation is that the Government

would be assuming a risk in taking over the railroads which it should not at the present time incur.

We must not fail to realize that if the country were in better shape financially, the railroads would doubtless also reveal an improved condition which would make the argument for Government ownership less effective.

We have no assurance that the Government would succeed better than private ownership.

In carrying out plans of consolidation the carriers may be relieved of the operation of the Anti-Trust laws at the discretion of the Commission. This would make the carriers an exempt class and allow an agency of the Government to discriminate and at will set aside not only the specific laws but all restraints and prohibitions of any law or laws of the United States.

The benefits of consolidation which can be brought about within the railroad organizations themselves will be the more lasting and far superior to a governmental control. This would be especially true if the governmental control were to be subject to radical or partisan motives. The railroad organizations could organize within themselves a group of men to work out a plan of accomplishing all the good that would come from consolidation without all the evil effects of radical change at this time. This group would have to work with a governmental board because of the vast

network of Federal and State organizations in the transportation field.

The various forms of transportation in the United States have been developed without reference to any comprehensive national transportation policy. Railroad development has been carried out under private auspices and has resulted in extensive duplication of facilities.

Our waterways have been improved during the past thirty years. This development has been carried out mainly under the direction of the federal government and in no sense has it been coordinated with our other forms of transportation agencies. The fact that water transportation is subsidized makes it an unfair competitor of the railroads. The waterways can quote much lower rates than the railroad transportation agencies because there is a very low cost for maintenance and no charge for the use of the waterway.

Oil and gas pipe lines have grown up as an adjunct to a special industry. Hard-surfaced highways, developed first to accommodate passenger automobiles on pleasure bent, have given us a great highway transportation system. Long-distance State and Federal highways in the main compete with, rather than supplement, other forms of transportation.

The net result of this haphazard transportation development has been to create a great excess of transportation even in normal times. The railroads alone could handle all

the freight traffic of the United States without any increase in capacity.

The future of our transportation systems must be considered in the light of the past. There is no doubt but that the railroads of the United States have been taxed while other competing systems of transportation have been free of taxation or a very light tax imposed. The heavy taxation of the railroads has made it hard for them to compete in many ways with the other forms of transportation. They are finding it more and more difficult to keep going.

All forms of transportation should be placed upon a basis of uniformity with respect to regulation, taxation and subsidies. This would help solve many of the social and economic problems incident to the railroads.

Our transportation agencies would be more effectively coordinated if companies to engage in all forms of transportation were authorized.

A united transportation company would automatically utilize that combination of agencies which experience proved to be the most economical. There need be no fear that a general transportation company would throttle competition, regardless of transportation economies. If we could have a transportation company made up of our present transportation companies linked into this one control we could probably see some good results of consolidation of available facilities.

Regulation of such companies by the Interstate Commerce Commission would of course be required. If all our forms of transportation were placed upon a basis of economic parity and the business of the companies was conducted by men who always were looking for the benefits of consolidation, the problem of regulation itself would be enormously simplified.

In conclusion, I would state that our primary transportation objective could be summarized as follows: The public interest requires the transportation of goods and people in the cheapest and most efficient manner possible. If we are to reach this objective there must be no favoritism shown toward any particular type of transportation. The main objective is that goods and people shall move by one transportation agency, or a group of such agencies, in the cheapest and most efficient way.

A move in the right directions was taken by the Interstate Commerce Commission during the first week of March, 1936. The Commission "ordered all U. S. railroads to reduce present basic fares of 3.6 cents a mile in coaches and 3.6 cents a mile plus 50% surcharge in Pullmans to a maximum rate of 2 cents a mile in coaches and 3 cents a mile in Pullmans. Pullman surcharges are to be abolished. Effective date: June 2, 1936." (1)

Many of the leaders in the railroad industry thought this order would bring heavy losses to their companies.

(1) Time. Volume XXVII, Number 10, March 9, 1936, p. 34.

"President Martin Withington Clement called the I.C.C. decision a 'terrible disappointment,' said it would mean a 'terrific loss.' " (1) As a result of this line of thought twenty-three dissenting Eastern roads sued in the Federal courts. They argued that the meager passenger revenues they were then receiving would continue to decline. Among the big carriers the Baltimore & Ohio Railroad Company was the only one that was pleased with the rate reduction ordered by the Commission.

"Last week, the Interstate Commerce Commission could say, 'I told you so.' The Association of American Railroads disclosed a 22.6 per cent earnings increase for ninety-five Class I companies for December, 1936, over the corresponding month of 1935, reflecting the increase in both passenger and freight rates.

The Association estimated revenues would total \$293,876,436 as against \$239,708,262 for the December of 1935. December, 1936, therefore, compared favorably with 1930, the last big year. December revenues then totaled \$295,804,992. Of the Association's estimates for the last month of 1936, passenger revenues accounted for \$30,956,253, as against \$27,457,500 in December, 1935." (2)

Let us hope that the rate-reduction ordered by the Commission may bring us nearer our main objectives in the

(1) Time. Volume XXVII, Number 11, March 16, 1936, p. 45.

(2) The Literary Digest, January 23, 1937, p. 38.

transportation field.

President Franklin Delano Roosevelt's
Message to the 73d Congress concerning
our Transportation Problem

"To the Congress:

The steam railways still constitute the main arteries of commerce in the United States. At this time, however, available traffic is not sufficient profitably to utilize existing railway facilities and the supplementary facilities provided by new forms of transportation.

Our broad problem is so to coordinate all agencies of transportation as to maintain adequate service. I am not yet ready to submit to the Congress a comprehensive plan for permanent legislation.

I do believe, however, that three emergency steps can and should be taken at this special session of the Congress.

First, I recommend the repeal of the recapture clauses of the Interstate Commerce Commission Act. The Commission has pointed out that existing provisions are unworkable and impracticable.

Second, railway holding companies should be placed definitely under the legislation and control of the Interstate Commerce Commission in like manner as the railways themselves.

Third, as a temporary emergency measure, I suggest the creation of a Federal coordinator of transportation who,

working with groups of railroads, will be able to encourage, promote, or require action on the part of carriers, in order to avoid duplication of service, prevent waste, and encourage financial reorganizations. Such a coordinator should also, in carrying out this policy, render useful service in maintaining railroad employment at a fair wage.

The experience gained during the balance of this year will greatly assist the government and the carriers in preparation for a more permanent and a more comprehensive national transportation policy at the regular session of the Congress in 1934.

Franklin Delano Roosevelt

The White House, May 4, 1933." (1)

(1) Document 32, 73d Congress 1st Session, House of Representatives, May 4, 1933.

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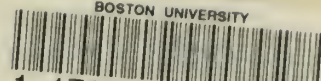
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Railroad consolidation

DATE	ISSUED TO
2.50	Arthur Zepfitz
1.45	C. Wright

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